CANADA

REFERENCE 160

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RELATING TO THE RE-INSTATEMENT OF THE GENERAL PREFERENTIAL TARIFF ON IMPORTS OF COLOUR TELEVISION RECEIVING SETS

A REPORT BY
THE TARIFF BOARD

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RELATING TO THE RE-INSTATEMENT OF THE GENERAL PREFERENTIAL TARIFF ON IMPORTS OF COLOUR TELEVISION RECEIVING SETS

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REFERENCE 160

RELATING TO THE RE-INSTATEMENT OF THE GENERAL PREFERENTIAL TARIFF ON IMPORTS OF COLOUR TELEVISION RECEIVING SETS

The Board was requested by the letter of reference reproduced in part below, from the Honourable Pierre Bussières, the Minister of State for Finance, to inquire whether or not the proposed re-instatement of the General Preferential Tariff (GPT) on colour television sets, currently withdrawn until December 31, 1982 by Order-in-Council, P.C. 1981-3649, dated December 17, 1981, would cause injury to Canadian producers of such sets.

The Minister's letter of reference dated January 20, 1982, reads in part as follows:

> "I would also direct the Board, pursuant to section 4(2) of the Tariff Board Act, to conduct an inquiry into the question of whether or not Canadian producers would be injured, according to the criteria used for reviewing safeguard petitions, if (the Order-in-Council) which currently excludes ... colour television receiving sets from the benefits of the GPT were allowed to lapse on (its) current expiry date of December 31, 1982. I would ask the Board to submit its report on this inquiry no later than November 1, 1982."

The colour television sets subject to Reference 160 include sets of all sizes by themselves, or in combination with radios, record players and other such devices, both for domestic and non-domestic use, fully assembled or in kit form, as covered by tariff items 44533-1 and 44533-4. Parts are excluded. The current rates for the referred tariff items appear next:

		British Preferential	Most-Favoured-Nation	General Tariff	General Preferential Tariff	U.K. and Ireland
44533-1	Radio and television apparatus and parts thereof, n.o.p.:					
	Other than the following	Free	12.8 p.c.	25 p.c.	Free (temporarily withdrawn)*	9.2 p.c.

		British Preferential	Most-Favoured-Nation	General Tariff	General Preferential Tariff	U.K. and Ireland
44533-4	Domestic colour television receiving sets and parts thereof	Free	13.8 p.c.	25 p.c.	Free (temporarily withdrawn)*	7.5 p.c.

* for colour television sets only.

The Board carried out its inquiry and held a public hearing on June 28, 1982, in Ottawa, attended by representatives of Canadian producers of colour television sets (Electrohome Limited, Hitachi (HSC) Canada Inc., Matsushita Industrial Canada Limited and its affiliates in Canada, Sanyo Canada Inc., and RCA Inc.), the International Brotherhood of Electrical Workers, the Electronic Industries Association of Korea and other interested parties.

During the course of the inquiry, the Board received representations that it would be desirable to have the Board report at the earliest possible date because a number of the industry's investment decisions might be affected by the Board's conclusions. In response to these representations the Board has found it possible to issue its report in advance of the due date.

Upon reviewing the evidence, the Board has established that the volume of imports of colour television sets from the Republic of Korea and from Singapore, countries which will benefit from the General Preferential Tariff should the latter be re-instated, has grown in recent years on average about three times as rapidly as the domestic market for such sets. There are, furthermore, indications of rising imports from other GPT countries, though at present the volume is small.

The Board noted that imports of colour television sets, notably from Korea, are of comparable quality to those produced in Canada. Moreover, in Korea colour television sets are manufactured in world-scale plants, conferring unit cost advantages which allow Korea to compete effectively with imports from countries enjoying Most-Favoured-Nation status in world markets.

The evidence before the Board focussed almost exclusively upon Korean imports, with some reference to imports of colour television receiving sets from Singapore and other GPT countries. In the Board's

view, a similar circumstance could arise rather quickly with respect to those countries as well, given the nature of the product and the ease with which plants designed for mass production and the world markets can be sited by multi-national firms in less developed countries. As a consequence, these plants tend to be world-scale, or nearly world-scale, at birth and are not the small evolving plants whose products require special assistance to enter the markets of developed nations.

The Board finds that when all considerations concerning the quality, the costs, the mobility of investment and the rapid growth of GPT imports are taken together, there is clear evidence of a real threat of injury to Canadian producers should the GPT be re-instated at Free. Therefore, continued withdrawal of the GPT for referred colour television receiving sets from all countries otherwise entitled to such preferential rates is necessary in order to provide significant and enduring relief for Canadian producers of colour television sets exposed to GPT competition.

The Board, therefore, concludes that Canadian producers would be injured if the Order-in-Council which currently excludes colour television receiving sets from the benefits of the GPT were allowed to lapse on its current expiry date of December 31, 1982.

Moreover, earlier, the Board was requested under Reference 158, Annex B, to determine the impact on Canadian producers of extending the GPT rate of Free to tariff item 44542-1, which includes picture tubes for colour television receiving sets. As stated in Part II of its Report on that reference, the Board delayed submitting its recommendation with respect to that item, in particular in relation to colour television picture tubes, until its inquiry for Reference 160 was completed. The Board found, on the basis of its own investigation as well as the evidence presented by RCA Inc., the sole Canadian manufacturer of these tubes, that increasing imports of colour television picture tubes from producers entitled to GPT treatment would exert an adverse impact upon the domestic producer. This finding is not affected by the recent announcement by RCA Inc., that the company plans to discontinue operations by the end of the current year at its Midland plant where colour television picture tubes are manufactured, citing losses in the European market, adverse demand conditions in Canada and the United States, and severe price competition as the main reasons for this move. RCA Inc., is now actively seeking a purchaser. This development confirms the Board's findings as to the precariousness of the situation.

The Board accordingly concludes that the GPT should not be extended for colour television pictures tubes imported under tariff item 44542-1 as long as manufacturing of such tubes in Canada continues, because the reinstatement of the GPT would cause injury to the Canadian producer.

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Member

July 26, 1982

En conséquence, la Commission conclut que le TPG ne devrait pas porter sur les tubes de télécouleurs importés en vertu du numéro tarifaire 44542-1 tant et aussi longtemps que ces tubes seront fabriqués au Canada, étant donné que le rétablissement du TPG dans ce cas causerait un préjudice au producteur canadien.

Président

Premier vice-président

Deuxième vice-président

Membre

Membre

Membre

Membre

Le 26 juillet 1982

La preuve dont la Commission a été saisie portait presque exclusivement sur des importations provenant de la Corée, avec référence toutefois à des importations de télécouleurs en provenance de Singapore et d'autres pays TPG. De l'avis de la Commission, une situation semblable à ce qui existe en Corée pourrait survenir assez rapidement en ce qui concerne ces autres pays vu la nature du produit et la facilité pour des firmes multi-nationales d'y établir des usines destinées à produire en série pour les marchés mondiaux. En conséquence, ces usines sont habituellement construites pour produire à l'échelle mondiale ou presque, dès leur établissement et elles ne peuvent être considérées comme de petites usines se développant graduellement et dont les produits requièrent une assistance particulière pour entrer sur les marchés des nations industrialisées.

La Commission constate que lorsque l'on prend en considération dans son ensemble la qualité, les coûts, la mobilité d'investissement et l'augmentation croissante des importations TPG, il y a preuve indiscutable d'une menace réelle de préjudice pour les producteurs canadiens si le TPG était rétabli à la franchise. Donc, maintenir le retrait du TPG pour les télécouleurs en question provenant de tout les pays qui autrement y auraient droit est nécessaire afin d'aider efficacement et de façon durable les producteurs canadiens de tels télécouleurs qui doivent faire face à la concurrence TPG.

En conséquence, la Commission conclut que les producteurs canadiens subiraient un préjudice si le décret qui exclut actuellement les télécouleurs des avantages du TPG cessait de s'appliquer le 31 décembre 1982, comme prévu.

De plus, on avait demandé antérieurement à la Commission en vertu du Renvoi 158, Annexe B, de déterminer si les producteurs canadiens subiraient un préjudice si le taux TPG était étendu à la franchise pour le numéro tarifaire 44542-1 lequel comprend les tubes pour télécouleurs. Tel que stipulé à la partie II de son rapport sur ce Renvoi, la Commission a préféré suspendre toute recommandation portant sur ce numéro tarifaire, particulièrement en ce qui a trait aux tubes pour télécouleurs jusqu'à ce que le Renvoi 160 soit complété. La Commission a conclu suite à son enquête et à la preuve présentée par RCA Inc., le seul fabricant canadien de ces tubes, qu'une augmentation dans les importations de tubes pour télécouleurs de producteurs bénéficiant du TPG aurait des incidences défavorables sur le producteur canadien. Cette décision n'est pas affectée par l'avis récent de RCA Inc., à l'effet que la compagnie cessera ses activitiés d'ici la fin de l'année à son usine de Midland où les tubes pour télécouleurs sont fabriqués. La compagnie a cité comme raisons principales de cette fermeture les pertes sur le marché européen, une diminution dans la demande au Canada et aux Etats-Unis et une forte concurrence dans le domaine des prix. Présentement, la RCA Inc. recherche activement un acheteur. Cet état de chose confirme les conclusions de la Commission quant à la précarité de la situation.

		Tarif de préférence britannique	Tarif de la nation la plus favorisée	Tarif général	Tarif de préférence général	R.U. et Irlande
44533-4	Télécouleurs domestiques et leurs pièces	En fr.	13.8 p.c.	25 p.c.	En fr. (retiré temporairement)*	7.5 p.c.

* pour télécouleurs seulement.

La Commission a fait enquête et une audience publique fut tenue à Ottawa le 28 juin 1982 à laquelle ont assisté les représentants de producteurs canadiens de télécouleurs, (Electrohome Limited, Hitachi (HSC) Canada Inc., Matsushita Industrial Canada Limited et ses compagnies affiliées au Canada, Sanyo Canada Inc., et RCA Inc.), La Fraternité Internationale des Ouvriers en Electricité, l'Electronic Industries Association of Korea ainsi que d'autres parties intéressées.

Au cours de l'enquête, on a soumis à la Commission qu'il serait souhaitable que cette dernière produise son rapport le plus tôt possible vu qu'un bon nombre de décisions concernant des projets d'investissement dans l'industrie pourraient être affectées par les recommandations de la Commission. Afin de répondre à cette demande, la Commission a cru bon d'émettre son rapport avant la date d'échéance.

En revisant la preuve qui lui a été soumise, la Commission a établi que le volume d'importations de télécouleurs en provenance de la République de Corée et de Singapore, pays qui bénéficieront du Tarif de préférence général advenant son rétablissement, s'est accru en moyenne trois fois plus rapidement que le marché intérieur au cours des dernières années en ce qui concerne ces télécouleurs. Il y a de plus indication que les importations d'autres pays jouissant du TPG augmentent bien que le volume demeure présentement minime.

La Commission a constaté que les télécouleurs importés, notamment ceux de Corée, sont de qualité équivalente à ceux fabriqués au Canada. En outre, les télécouleurs manufacturés en Corée le sont dans des usines à échelle mondiale, conférant des avantages de prix unitaires permettant à la Corée de faire concurrence efficacement sur les marchés mondiaux aux importations provenant de pays bénéficiant du statut de nation la plus favorisée.

RENVOI 160

RELATIF AU RÉTABLISSEMENT DU TARIF DE PRÉFÉRENCE GÉNÉRAL POUR LES IMPORTATIONS DE TÉLÉCOULEURS

Dans une lettre de référence reproduite en partie dans le paragraphe qui suit, l'honorable Pierre Bussières, ministre d'Etat aux Finances, demandait à la Commission du tarif de faire enquête afin de déterminer si le rétablissement proposé du Tarif de préférence général pour les télécouleurs, retiré présentement par le décret C.P. 1981-3649 en date du 17 décembre 1981, causerait un préjudice aux producteurs canadiens de télécouleurs.

La lettre de référence du Ministre, datée du 20 janvier 1982, se lit en partie comme suit:

> "J'ordonnerais également à la Commission, conformément au paragraphe 4(2) de la Loi sur la Commission du tarif, de faire enquête afin de déterminer si les producteurs canadiens subiraient un préjudice, selon les critères servant à examiner les demandes d'application de mesures de sauvegarde, si le décret qui exclut actuellement ... les télécouleurs des avantages du TPG cessait de s'appliquer le 31 décembre 1982, comme prévu. Je demanderais à la Commission de présenter son rapport sur cette enquête au plus tard le 1er novembre 1982."

Les télécouleurs visés par le Renvoi 160 comprennent les postes de toutes les dimensions, seuls ou même combinés avec des radios, des tourne-disques ou d'autres appareils de ce genre, pour usage domestique ou non, complètement assemblés ou en trousses, tel que prévu aux numéros tarifaires 44533-1 et 44533-4. Les taux actuels de ces numéros tarifaires sont les suivants:

	Tarif de préférence britannique	Tarif de la nation la plus favorisée	Tarif général	Tarif de préférence général	R.U. et Irlande
44533-1 Radios et téléviseurs, et leurs pièces, n.d.:					
Autres que ce qui suit	En fr.	12.8 p.c.	25 p.c.	En fr. (retiré temporairement)*	9.2 p.c.

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RENVOI 160

RELATIF AU RÉTABLISSEMENT DU TARIF DE PRÉFÉRENCE GÉNÉRAL POUR LES IMPORTATIONS DE TÉLÉCOULEURS

Ce rapport, préparé suite à une référence du ministre des Finances et signé par les membres de la Commission du tarif le 26 juillet, 1982, est remis au ministre pour présentation au Parlement en vertu de l'article 6 de la Loi sur la Commission du tarif.

RENVOI 160

RELATIF AU RÉTABLISSEMENT DU TARIF DE PRÉFÉRENCE GÉNÉRAL POUR LES IMPORTATIONS DE TÉLÉCOULEURS

RAPPORT DE

LA COMMISSION DU TARIF

RENVOI

160

REFERENCE 160.1

RELATING TO THE REINSTATEMENT OF THE GENERAL PREFERENTIAL TARIFF ON IMPORTS OF COLOUR TELEVISION RECEIVING SETS

A REPORT BY

THE TARIFF BOARD

REFERENCE

160.1

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RELATING TO
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THE TARIFF BOARD

Ottawa
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REFERENCE 160.1

RELATING TO THE REINSTATEMENT OF THE GENERAL PREFERENTIAL TARIFF ON IMPORTS OF COLOUR TELEVISION RECEIVING SETS

I. BACKGROUND

In January, 1982, the Board was requested by the then Minister of State for Finance, the Honourable Pierre Bussières, to inquire as to whether or not the re-instatement of the General Preferential Tariff (GPT) pertaining to imports of colour television sets would cause injury to the Canadian producers of such sets. At that time, the GPT rate was not in force, having been withdrawn for a temporary period then scheduled to expire on December 31, 1982. The pertinent section of the original letter of reference, dated January 20, 1982, reads in part[(1)] as follows:

> "I would also direct the Board, pursuant to section 4(2) of the Tariff Board Act, to conduct an inquiry into the question of whether or not Canadian producers would be injured, according to the criteria used for reviewing safe-guard petitions, if the (Order-in-Council) which currently excludes ... colour television receiving sets from the benefits of the GPT were allowed to lapse on (its) current expiry date of December 31, 1982."

The Board subsequently completed its inquiry and concluded in its report of July 26, 1982, that "Canadian producers would be injured" were the GPT rate for colour television sets to be reinstated. Consequent to the Board's conclusion in 1982, the withdrawal of the otherwise applicable GPT rate of Free on such goods was then further extended for a three-year period to expire December 31, 1985.

In instances where a safeguard action respecting GPT benefits has been implemented, the Board has also to assess, upon receipt of a petition from domestic producers, the effect the reintroduction of the GPT rate will have upon expiry of such temporary measures. To date, such reviews have been conducted after a three year period. This present report therefore constitutes the Board's second inquiry into the colour television industry in Canada with regard to GPT imports.

(1) See also Annex A for full text.

The mandate for such a review was given the Board by the Honourable Roy MacLaren, at that time Minister of State for Finance, in a letter dated February 10, 1984, excerpts of which are below:(1)

> "I am writing to provide further guidance to the Tariff Board ... as it relates to petitions for temporary safeguard actions under the General Preferential Tariff (GPT). ... I think it would be useful to clarify the Board's responsibilities in those instances where temporary safeguard actions have already been implemented by the Government. ... The Government intends that these safeguard measures should be maintained only for such time as is necessary to prevent or remedy the injury caused domestic producers by the lower GPT rates. In cases where temporary action has been taken, I believe it would be useful for the Board to take those ... steps that are necessary to ensure that it has at its disposal information needed to assess the effects which the reintroduction of GPT rates would have on domestic production and imports. I would therefore direct the Board ... to collect any relevant information relating to a safeguard measure under the GPT while it is in effect, to receive and review petitions which may be made ... and to report to the Government ... Of Course, should the Board not receive any petitions ... the measure would be allowed to lapse on its scheduled expiry date."

A further clarification of the Board's mandate was provided by the Honourable Barbara McDougall in a supplementary letter dated May 30, 1985:(2)

> "Under procedures set out in a letter of reference dated July 24, 1980 and elaborated on in a subsequent letter of reference dated February 10, 1984, the Tariff Board has been given the authority to review and make recommendations to the Minister of Finance concerning petitions from Canadian producers for the withdrawal of GPT rates of duty in cases where these producers have suffered or may suffer injury as a result of the application of those rates. I believe it would be desirable to further clarify the Board's authority to undertake reviews of any petitions in the case of the two safeguard measures first introduced by Order in Council prior to July 24, 1980 under which the GPT had been temporarily withdrawn from rubber footwear and colour television sets. These withdrawals are now scheduled to lapse on December 31, 1985.

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(1) See also Annex B for full text.
(2) See Annex C for full text.

> I would therefore direct the Board, pursuant to section 4(2) of the Tariff Board Act, to conduct inquiries into any petitions that it has received or might receive from Canadian producers for the continuation of these two GPT withdrawal measures."

On November 22, 1984 a petition as provided for was received by the Board from the six Canadian television set producers. This petition requested a review of the status of the existing withdrawal of the GPT "for the reason that the importation of colour televisions at GPT tariff rates cause or threaten injury to domestic production".(1) In response to this petition, a determination by the Government respecting the effects of the reintroduction of the GPT concerning colour televisions must be made by December 31, 1985, when the present withdrawal measure is scheduled to expire.

Following the petition, the Board ordered a full inquiry, to commence as Reference 160.1, and held a public hearing on June 26, 1985. This hearing was attended by representatives of all current manufacturers in Canada of colour televisions. Among other interested parties participating in this hearing were representatives of the television industry of the Republic of Korea (Korea), which, among GPT-status countries, is the predominant exporter to Canada of colour sets. (A complete attendance listing is provided in Annex E). The Board has to present its report 60 days prior to the expiry of the safeguard action, i.e., by October 31, 1985.

In addition to its petition to the Tariff Board respecting the possible restoration of the currently withdrawn GPT rate, the Canadian colour television set industry has also commenced anti-dumping action under the Special Import Measures Act, alleging the importation of Korean colour sets into Canada at dumped prices.

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(1) Also see Appendix C.

Following the release of its official report on July 1982, the Board made available to the public in 1983 a supplemental staff study pertaining in some detail to the domestic colour television industry and market. The staff study, dated August 26, 1983 contains the statistical evidence assembled by the Board as part of Reference 160. For the purpose of Reference 160.1, the present report carries forward(1) and updates much of the information presented in that earlier staff study.

II. THE GOODS AT ISSUE AND APPLICABLE TARIFFS

The products covered by Reference 160.1 are colour television receiving sets. A television set, or receiver, may be defined as an electronic device, designed primarily for entertainment purposes, capable of receiving audio signals and electric impulses (video signals) which are displayed in colour to the viewer as video images, together with sound. Television sets include separate units as well as receivers which are sold as a combination unit together with video cassette recorders, record players, radios, stereos and similar home entertainment devices. In practice, sales of such "combinations" are of negligible importance relative to the total Canadian market. This report also covers colour sets which are sold in disassembled form (as kits). Neither combinations nor kits are produced in Canada and together they currently comprise well less than 1.0 per cent in quantity terms of total Canadian colour television sales. This report does not pertain to black and white, or "monochrome", television receivers which are not domestically produced but imported, and which are not covered by this Reference.

Colour television sets are entered under three tariff items: items 44533-1, 44533-4 and 44533-5, the latter item having been introduced into the Customs Tariff as of January 1, 1985. Present nomenclatures and rates of duty are shown below:

(1) Minor revisions were made to some of the data given in the 1983 Staff Study.

Tariff Item		British Preferential Tariff	Most-Favoured-Nation Tariff	General Tariff	General Preferential Tariff	U.K. and Ireland
	Radio and television apparatus and parts thereof, n.o.p.:					
44533-1	Other than the following	Free	11 p.c.	25 p.c.	Free*	9.5 p.c.
44533-4	Domestic colour television receiving sets, other than 19 inch screen; parts of domestic colour television receiving sets	Free	10 p.c.	25 p.c.	Free*	7.5 p.c.
44533-5	Domestic colour television receiving sets, 19 inch screen	Free	11 p.c.	25 p.c.	Free*	8.2 p.c.

* Colour television receiving sets excluded from General Preferential Tariff.

Of the above three items, imports under 44533-4 account for the bulk of colour television imports.(1) Item 44533-1 is restricted in scope in that it covers colour television receivers which are not "domestic", such as sets with special arm attachments for use in hospitals, or sets with coin operated controls for use in airports, hotels, etc. These sets, because of their design and end-use, are not considered to be domestic. Item 44533-5 is also limited in scope as it refers only to sets with a 19-inch screen. Parts for colour television sets may be imported under either item 44533-1 or 44533-4. However, such parts are, in practice, primarily entered under several other more specific tariff items found in the Customs Tariff and, moreover, are not the subject of the present inquiry.

As a result of the withdrawal of the Free rate provided for under the GPT schedule, the tariff applying is either the MFN or, in some cases, the BP tariff. For most GPT-status countries, for example Korea, the withdrawal of the GPT rate of Free on colour television sets results in the application of

(1) Based on the first six months of 1985, colour sets entered under item 44533-4 accounted for 92 per cent of total imports by both quantity and value.

the MFN rate of 10 p.c. or 11 p.c. In the case of countries accorded preferential treatment under the BP Schedule, most notably Singapore, colour television sets may still be imported duty free whether or not the GPT rate is in effect.

Prior to 1980, a single tariff item (44533-1) applied to television receivers. At that time, the item covered "Radio and television apparatus and parts thereof, n.o.p." with rates of duty being Free(BP), 15 p.c.(MFN), 25 p.c.(General) and Free(GPT). Upon conclusion of the MTN negotiations in 1979, item 44533-1 was divided into five parts. The five resulting tariff items comprised: 44533-1, covering colour television sets, if non-domestic; 44533-2, domestic radio receiving sets, including automobile radios; 44533-3, monochrome television receiving sets; 44533-4, domestic colour television receiving sets; and 44533-5, colour television cameras.

In January, 1985, the tariff items enumerated under the heading "Radio and television apparatus and parts thereof, n.o.p." were again expanded, from five to eight items.(1) As noted earlier, item 44533-5 respecting 19-inch colour sets was introduced at this time.

Some other tariff items may apply as well to the importation of colour television sets. Item 44534-1 which pertains to radio or television receiving sets incorporating a record playing device covers most models of "combination" units, as described earlier.(2) End-use item 69605-1 may also apply to colour televisions, although very infrequently.(3) However, to re-state, only colour television sets covered under items 44533-1, 44533-4 and 44533-5 form the subject of Reference 160.1 inasmuch as the current withdrawal of the GPT benefit applies only to these three tariff items.

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(1) The current tariff schedule for the eight items under this heading is presented in full in Annex F.

(2) The rates applicable to 44534-1 are 3.8 p.c.(under BP, MFN, and U.K./ Ireland schedules), 25 p.c.(General) and Free(GPT).

(3) Item 69605-1 permits duty-free entry for "Apparatus, utensils and instruments ... not available from production in Canada ... when for use by schools, research organizations ... libraries".

Like most statutory items, the three tariff items covered by this Reference are affected by graduated MFN tariff rate reductions negotiated pursuant to the 1979 MTN Agreement. For item 44533-1, this rate has already been reduced from 15 p.c. to its current level of 11 p.c. and is scheduled to decline in stages to 9.2 p.c. by 1987. Reductions are scheduled for item 44533-5 from 11 p.c. at present to 9.2 p.c., as well. The MFN rate for item 44533-4, currently 10 p.c., is scheduled however to decline to 7.5 p.c. by 1987. The margins of preference established by the GPT rate of Free would, accordingly, be reduced over the next two years, if the GPT were to enter into effect.

III. THE BOARD'S APPROACH

The statistical data assembled for the purposes of Reference 160, as contained in the 1983 staff study, cover a 10-year period ending with 1981. The present report brings forward most of the earlier data and provides updated statistics for the years 1981, 1982, 1983 and 1984. As well, all figures available for the current 1985 year are shown.(1) The Board's focus for the purpose of Reference 160.1 is on this most recent 1982-1985 period, the years covered by the latest extension of GPT withdrawal.

To improve upon the available data base, for the years 1982 to 1985 the Board's staff conducted a study of original import invoices for shipments of colour televisions entering Canada. This study provided the Board with considerably more detail than is available through published statistical sources. For the years 1981 onwards, the import figures used are based on this study rather than on figures published by Statistics Canada. While the import statistics used in this report may differ from those published by Statistics Canada, the resulting differences are not significant.(2)

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(1) Shipments figures, as based on the Board's industry study, are available only for the first quarter of 1985. Import data is provided for the first six months of 1985.

(2) The Board's staff was able to re-classify a number of import entries to correct for reporting errors found in the original documentation prepared by customs brokers.

For the 1982-1985 period, also, the Board's staff carried out a questionnaire survey of all Canadian colour television manufacturers. With the co-operation of these Canadian manufacturers, the Board's staff was able, most importantly, to obtain accurate and up-to-date statistics respecting Canadian production of colour sets.(1) The industry survey was also used to obtain other data respecting the Canadian colour television set industry, including inventory levels, per unit production costs by model size, employment, capital expenditures, profitability and plant capacity utilization. Much of this statistical information is presented in later sections of this report.

In many instances, import information and industry data are of a confidential nature. The statistical tables presented here have thus in all cases been structured so as to preserve confidentiality. Where analysis or findings are based largely on confidential information, the supporting data, if shown, are given in index form or by percentages.

It should be noted that the measurement of the size of a television set differs between Canada and the United States. In Canada, screen size is determined by the overall diagonal measure of the picture tube while in the United States the corresponding measure includes only the exposed portion of the tube. Therefore, a 19-inch set in the U.S.A. would be a 20-inch set in Canada. Such a difference of one inch pertains also to all other sizes. In import data, this measurement difference has resulted in some misclassifications. Wherever possible the Board's staff has adjusted for such errors. Throughout this report sizes are given in terms of Canadian standards.

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(1) Published data for the shipments of colour television receivers are not otherwise available. Reporting by Statistics Canada under SIC 3340 (Manufacturers of Household Radio and Television Receivers) excludes certain television manufacturers while including other manufacturers producing radios, record-playing devices and tape-playing equipment as well as colour television sets.

IV. AN OVERVIEW OF THE CANADIAN COLOUR TELEVISION INDUSTRY

There are currently five companies in Canada, located in Ontario and Quebec, which produce colour television sets: Electrohome Limited (Electrohome) at Kitchener, Ontario; Hitachi (HSC) Canada Inc. (Hitachi) of Pointe-Claire, Québec; Matsushita Industrial Canada Limited (Matsushita) of Toronto; Sanyo Canada Inc. (Sanyo) of Montreal; and RCA Inc. (RCA) at Prescott, Ontario. Mitsubishi Electric Sales Canada Inc. (Mitsubishi-Canada) has been since May, 1982, a member of the Canadian colour television industry. Mitsubishi-Canada at that time entered into to an agreement whereby it and Electrohome would, in effect, jointly produce and market colour televisions in Canada.(1)

The manufacture of colour sets in Canada is predominantly carried on by foreign-owned firms. Both Hitachi and Matsushita are wholly-owned subsidiaries of large Japanese corporations. Sanyo and Electrohome are essentially companies producing through partnership arrangements. Sanyo is jointly owned by Sanyo Electric Corporation of Japan and Magnasonic Canada Inc., a Canadian company. Electrohome's television business is, as noted, carried on in partnership with Mitsubishi-Canada, a subsidiary of a large Japanese concern. RCA is the wholly-owned subsidiary of RCA Corporation of New York and its television set production and marketing activity in Canada comprises part of RCA's Consumer Electronics Division.

The output of the Canadian industry consists in the main of the 14-inch set, usually referred to as "portable"; the 20-inch set, typically a "table model"; and the larger 26-inch size, normally sold as a "console" unit with its own pedestal or base. Other screen sizes are produced in Canada in very minor quantities. Until 1984, sets in the 16-inch and 18-inch category were produced. Currently (as of 1985), a small set with a 6-inch screen is made in Canada and some producers, in addition to the 20 and 26-inch sets, have recently commenced the manufacture of certain other larger sets

(1) Mitsubishi-Canada, while responsible for the distribution and marketing of colour televisions under the Electrohome name and other brands, does not itself have employees directly engaged in the manufacture of colour sets.

i.e., in the size range between 20 inches and 28 inches. All five Canadian producers make a 20-inch and 26-inch screen size and the 14-inch size is manufactured by three firms. The individual producer, for each of these categories, typically makes a range of various models with retail selling prices differing widely depending on the electronic features offerred and the type of cabinetry selected.

As based on the Board's survey, in 1984 shipments of colour sets by the industry totalled 695,800 units with a value, at the factory price level, of $262.9 million. During the mid-1970's production declined notably; however, over the past five years unit shipments of colour receivers have risen sharply, from 338,700 units in 1979. Production is chiefly for the domestic market. Exports of colour television sets,(1) almost entirely to the United States, totalled 62,800 units in 1982 and rose to 95,000 units in 1984 when they accounted for 13.7 percent of total Canadian industry shipments.

Canada's manufacturers of colour television sets are not for the most part themselves directly engaged in the marketing of their product lines. Distribution/marketing is performed by separate selling organizations. Most of these are affiliated sales companies (in one case, though, marketing is through a related division). These selling organizations normally market a range of consumer electronic products and appliances, such as stereo systems, video cassette recorders, and microwave ovens, in addition to television sets. Canada's five colour set manufacturers, in conjunction with their associated marketing organizations, also account, quite extensively, for imports. Such imports consist primarily of screen sizes not made domestically by an individual producer, and they enable him to offer a full product line. Imports may be within the same size category as that produced, but they are as a rule comprised of low-volume models with special features, in which form they are not made in Canada.

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(1) Exports of colour televisions in this report are based on Statistics Canada commodity class 637-20 (TV receiving sets, excluding combinations). Such export data technically include black and white sets but can be taken as pertaining only to colour television receivers.

As estimated by the Board, employment in the industry averaged 1,000 persons in 1984. This total includes employees engaged in production and in related administrative/office functions.

The manufacture of colour television receivers in Canada consists of an assembly process whereby the major components required are purchased from outside sources; very little manufacture of parts or materials is done by the five manufacturers in the industry in the assembly plants themselves. This is evident from the Board's recent survey of per unit production costs, which shows the low labour content and the high materials and component content of the average colour set.

The main components of a colour television set are the chassis (containing almost all of the electronic parts), the tuner or tuner module (sometimes included in the chassis), the yoke, a remote control device (where applicable), the picture tube, the speakers, and the enclosing cabinet. These components are predominantly imported, with the exception of cabinets and of colour picture tubes. Overall Canadian content is low, especially for the smaller sets.[1]

It may be noted that colour television picture tubes, a major component of television receivers, have been manufactured in Canada since 1966. Until December, 1982, they were made by RCA in its plant at Midland, Ontario, which was then closed. Subsequently, this production facility was acquired and modernized in 1983 by Mitsubishi Electric Co. of Japan and currently produces colour picture tubes in the 20-inch and 26-inch sizes.

V. THE CHANGING STRUCTURE OF THE INDUSTRY

The Canadian production of colour television sets had its origins in the manufacture of monochrome receivers in 1948. Until the mid-1960's Canadian producers supplied the bulk (over 90 per cent) of the domestic market for

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(1) See also Table 9.

black and white TV sets. Import competition was at that time minor, in part due to patent restrictions. Subsequently, however, import competition, principally from Japan, became intense. By 1977 production in Canada had declined to only 305,000 sets compared to its peak output of 800,000 units in 1955. Black and white set production since 1978 has been negligible.

However, commencing in 1966 with RCA's establishment of its Prescott, Ontario plant, the industry has shifted from monochrome to colour television receivers. This change-over was largely accomplished over the following five years. At that time production entailed much more actual "manufacturing" than the present assembly process; most television components were domestically made in those years and Canadian content, value added and labour input was considerably greater than at present. In the early 1970's employment in the manufacture of colour televisions was close to 6,000 persons.

Production in the colour television industry totalled 598,800 units in 1973 but output subsequently declined rapidly as imports captured a growing share of the domestic market. By 1978 domestic shipments had declined to 297,800 units, accounting for only some 15 per cent of the Canadian market. Confronted by these problems, a major industry restructuring occurred in the mid-1970's and the industry emerged as one basically performing an assembly type operation.

During the 1970's many manufacturers in Canada terminated production. In 1971, for example, there were 13 companies engaged in colour television manufacturing in Canada. However, as a result of the subsequent restructuring of the industry the following companies ceased production: Canadian Admiral Corporation Limited, Canadian General Electric Company Limited, Fleetwood Corporation, Philco Ford of Canada Limited, Canadian Westinghouse Company Limited, Phillips Canada Limited and Clairtone Sound Ltd. Also, the businesses carried on by Panasonic Industries Canada and by Motorola Canada Limited (subsequently Quasar Canada) were acquired by Matsushita and merged to form the business now carried on in its present form. By 1982 only the five present producers remained.

VI. GOVERNMENT INITIATIVES

As a result of rapidly rising imports and declining domestic production, the viability of the domestic colour television manufacturing industry became a serious concern of the federal government in the mid-1970's. The government, accordingly, instituted several measures to assist this industry, the core being the Colour Television Manufacturing Rationalization Program, which was introduced in 1977. The objective of this program was to re-structure and rationalize the industry by encouraging specialization in production of a more limited number of model types and sizes. The prevailing view at the time was that too many manufacturers, with an excessive number of different models, were attempting to compete in the relatively small domestic market. The rationalization program was intended to encourage longer production runs to permit greater economies of scale and to reduce per unit production costs. Central to this program were provisions whereby colour set producers could import, free of duty, those models/sizes not made by them, thus enabling them to specialize in selected models and to abandon low-volume product lines. The major feature of the rationalization program was thus the remission of duties on colour sets when imported by Canadian manufacturers. Otherwise, the MFN rate of duty, at that time 15 p.c., continued to be payable. The resulting margin was intended to cover additional investment necessitated by re-structuring, to absorb duties payable on exports into other markets, to improve the profitability of an industry experiencing major financial problems and to benefit consumers via lower prices than would have prevailed otherwise.

Duty remission for colour television sets was initially established for a five year period, from January 1, 1977, to December 31, 1981. This program was modified on January 1, 1979, to include duty remission on television chassis and components[1] as well. In this amended form, the

(1) Components were defined as "parts of chassis but ... excluding electric transformers, line cords or controls".

remission program was continued until December, 1981, its original expiry date. It was subsequently carried forward until December, 1983, in an altered form. For this latter two-year period, duty remission applied to television chassis and components only. The exclusion of colour sets themselves, and the substitution of the chassis and other components, for duty remission purposes, reflected the shift then occurring in the Canadian industry away from integrated manufacturing to assembly. While the duty remission program was terminated in 1983, a temporary tariff item, 44597-1, was introduced in that year, whereby television chassis entered duty free. This item, scheduled to expire June 30, 1985, has been renewed for a further one-year period until June 30, 1986. The current nomenclature of temporary tariff item 44597-1, similar in many respects to that used in the original remission program, is as follows:

	BP	MFN	General	GPT	U.K. & Ireland
Television chassis other than television chassis which incorporate cabinets, picture tubes, speakers, bezels, escutcheons, picture tube frames, decorative trim, or any other parts of the front of a television receiver; parts of the foregoing television chassis, other than electric transformers, line cords or controls; all of the foregoing for use in the manufacture of television receivers	Free	Free	25 p.c.	Free	Free

It should be noted that duty remission is currently in effect as well respecting colour picture tubes for television sets. In 1983, to encourage the continuation of picture tube manufacturing in Canada, the government instituted a duty remission program permitting Mitsubishi, upon its takeover of RCA's Midland plant, to recover duties paid on imports of picture tubes[1] of a size not made, i.e., other than 20-inch and 26-inch tubes. The current program is similar to the earlier one in effect for RCA when it operated the Midland tube facility.

(1) Picture tubes are currently entered under tariff item 44542-2 (Television picture tubes, colour), with rates of duty of Free(BP), 10.8 p.c.(MFN), 25 p.c.(General) and 9.3 p.c.(U.K. and Ireland). No GPT rate applies.

The federal government, in conjunction with the introduction of the manufacturing rationalization program in 1977, also instituted other tariff measures. In support of this program, and with regard to reductions under the Tokyo Round signed in 1979, the government postponed any lowering of the MFN rate on colour televisions until 1981. Of special pertinence to this report were measures taken at that time affecting the GPT rate. The preferential Free rate under the GPT was withdrawn, initially for three years, from February 5, 1977 to December 31, 1979, for colour television sets with screen sizes of 16 inches and over. For this period the Free rate under the BP schedule was also withdrawn. The withdrawal was then extended, both for the GPT and BP Free rates, until December, 1981 and applied to all sizes and models. At that point the BP rate of Free was reinstated. However, the GPT rate was again withheld for another year, until December 31, 1982. During 1982, the GPT reinstatement issue was referred to the Tariff Board. As mentioned earlier, the Board recommended against the reinstatement of the GPT Free rate, scheduled for December, 1982, and the GPT rate was withdrawn for a further three-year period, until December 31, 1985. It is noted that the GPT Free rate has, since 1974 when it was first introduced, been in force only for the brief period between 1974 and early 1977.

During the 1970's, several anti-dumping actions took place as well. In 1970, the domestic industry filed complaints of dumping with National Revenue with respect to imports of certain sizes of colour television sets. In 1971, the Anti-dumping Tribunal found that dumping of colour television sets with a screen size exceeding 12 inches from Japan and Taiwan by certain exporters had caused and were likely to cause material injury. In 1975 the Tribunal found that dumped colour television sets (of 16 inches and over in screen size) from Japan, Taiwan and Singapore had not caused and were not causing material injury, but were likely to cause material injury. This finding was reviewed in 1979 and rescinded.

VII. REPRESENTATIONS MADE TO THE BOARD

A number of submissions were presented to the Board respecting this inquiry and pursuant to the public hearing held on June 26, 1985. These comprised various briefs, both public and confidential, and public statements made during the hearing. Public briefs were submitted by: a) The Canadian Producers of Colour Television Receiving Sets; b) The Electronic Industries Association of Korea (EIAK); c) The Consumer's Association of Canada; d) Tracon Consultants Ltd., on behalf of the Canadian Tire Corporation; and e) Hitachi (HSC) Canada Inc.

The brief of the Canadian producers was addressed primarily to market developments concerning colour sets with a screen size from 10 inches to 20 inches (inclusive) and most of the statistical evidence presented referred to this size range. The producers' brief contended that injury had been experienced by the Canadian industry over the 1982 to 1984 period, citing losses in market share, profitability, production and a decrease in capacity utilisation. The injury was attributed in the main to imports from Korea as such, even under conditions of the current withdrawal of the GPT. With reference to colour sets of the 26-inch screen size, it was felt that GPT importation would likely occur in the future, given that production of this larger set size has recently commenced in Korea. The brief concluded that the Korean colour television industry is a major threat to the viability of Canadian manufacturers, that the industry did not need special concessions to compete in the Canadian market, and that the Canadian industry was vulnerable to price pressure from Korean producers. It was contended that it would be untimely and unreasonable, therefore, for the Government to reinstate the GPT rate of Free for colour televisions when the present withdrawal expires.

The position put forward in the EIAK brief was that, while Korean colour television exports to Canada have increased, such exports serve a "discrete niche" in the Canadian market that is inadequately served by Canadian producers. It was claimed, further, that this discrete niche was composed of price-conscious and lower-income Canadians for whom price was the

principal or sole criterion. In contrast, it was submitted that sales by the Canadian industry were heavily concentrated to the "high margin" market segment for sophisticated sets incorporating several enhanced features, a market segment in which Korea did not participate. It was concluded that the Board ought to recommend, at a minimum, restoration of the GPT rate for Korean colour TV sets 20 inches or less in screen size.

On behalf of the Canadian Tire Corporation, an importer of colour televisions manufactured in GPT countries, Tracan Consultants Ltd. contended that any injury suffered by Canadian producers would not be due to the GPT rate but rather to other economic factors and business practices. The Canadian Tire Corporation was therefore opposed to the continued withdrawal of the GPT rate for colour television sets.

In its public brief, Hitachi referred to the pertinent sections of the Customs Tariff relating to Canada's General Preferential Tariff system and, as well, to international agreements under the United Nations Conference on Trade and Development (UNCTAD) to which Canada is a signatory. It was pointed out that the Generalized System of Preferences established to aid developing countries is essentially a voluntary scheme and that, under section 3.2(2) of the Customs Tariff, Governor-in-Council may withdraw the benefit of the GPT in whole or part in respect of any country or particular product imported from such country. Hitachi concluded that there were several means to implement a permanent withdrawal of the GPT respecting colour televisions by amendments to the Customs Tariff as provided for; such amendments could effect either the elimination of the Republic of Korea as being eligible for GPT preferences or, alternatively, could, more specifically, designate colour television imports from that country as being ineligible for entry at the GPT rate.

During the public hearing, further representations were made through various public statements by officials of Sears Canada Inc., Sanyo, and Hitachi as well as by legal counsel for EIAK. Confidential briefs and submissions were, also, presented by the Canadian producers, EIAK, Sanyo, Hitachi and Sears Canada Inc.

VIII. IMPORT ANALYSIS

A. Import Trends

Import statistics since 1972 respecting colour television sets are provided in Table 1. This table shows total imports, in number of sets, together with the composition of imports according to country of origin. It can be seen that, for the period covered, colour television imports from all countries have risen markedly, from 312,000 units in 1972 to about 800,000 units in 1984. However, rather sharp fluctuations have attended this overall import expansion. A major decline occurred in 1975 and, more recently, in 1980-82 when another down-turn in total imports took place, which was followed by very sharp increase in shipments from abroad in 1983 and 1984.

The importation of colour televisions from GPT status countries was insignificant, at first, during most of the 1970's. They comprised until 1976 less than 5 per cent of total imports. But, in the latter part of the 1970's, GPT imports commenced a rapid rise; over the period 1979 to 1984 such imports rose from 19.8 per cent of total imports to 45.1 per cent. Simultaneously with this marked increase in GPT imports there was a notable fall in the proportion of colour televisions entering from Japan and the U.S.A. These two countries currently account for less than 50 per cent of total imports, whereas in the early 1970's, virtually all colour television imports came from these two sources.

Also documented quite clearly in Table 1 is the emergence of Korea as the principal source of imported colour TV's, both as to total imports and to those under the GPT. Whereas colour sets entered from Korea were negligible in volume as late as 1977, they have since moved forward rapidly. By 1984, imports from Korea approached 310,000 units, a total surpassing imports from Japan by a considerable margin, making Korea the largest supplier. At present, Korea is clearly the dominant country, accounting for 85.7 per cent of all GPT imports, among those accorded GPT status. As shown, imports under

TABLE 1: COLOUR TELEVISION SETS: IMPORTS OF ALL SIZES AND TYPES, BY UNITS, 1972-1985(a)

	1972	1973	1974	1975	1976	1977	1978	1979
				- units -				
GPT								
Korea	-	-	-	-	700	1,256	8,844	74,635
Singapore	-	-	4,384	13,046	35,898	35,333	37,165	43,498
Hong Kong	11	173	8	2	1,811	5	-	4
Other	80	2	1	7	-	-	-	4
Total GPT	91	175	4,393	13,055	38,409	36,594	46,009	118,141
Non-GPT								
Japan	169,505	160,870	249,063	198,584	410,396	364,858	227,418	135,660
Taiwan	1,549	12,518	12,378	6,837	10,967	2,500	25,253	49,955
U.S.A.	141,118	197,708	183,687	106,484	125,687	144,649	301,800	292,860
Other	2	3	49	44	10	4	11	31
Total Non-GPT	312,174	371,099	445,177	311,949	547,060	512,011	554,482	478,506
Total - All Countries	312,265	371,274	449,570	325,004	585,469	548,605	600,491	596,647
				- per cent -				
GPT Imports as % of Total Imports	0.0	0.1	1.0	4.0	6.6	6.7	7.7	19.8
Korea as % of GPT Imports	0.0	0.0	0.0	0.0	1.8	3.4	19.2	63.2
Japan and U.S.A. as % of Total Imports	99.5	96.6	96.3	93.9	91.6	92.9	88.1	71.8

TABLE 1 (Concl.)

	1980	1981	1982	1983	1984(b)	1st Half 1984(b)	1st Half 1985
				- units -			
GPT							
Korea	49,610	56,967	41,251	142,455	309,215	148,040	99,050
Singapore	17,571	28,952	21,061	42,062	35,909	19,150	18,193
Hong Kong	4	9	509	1,715	5,294	2,362	1,605
Other	1	17	-	4,472	10,195	4,506	5,252
Total GPT	67,186	85,945	62,821	190,704	360,613	174,058	124,100
Non-GPT							
Japan	92,181	145,861	148,911	242,560	194,123	102,219	73,969
Taiwan	46,701	24,610	2,070	28,394	57,107	25,882	10,420
U.S.A.	250,494	195,459	163,898	189,765	187,059	94,396	77,581
Other	720	24	16	12	230	5	653
Total Non-GPT	390,096	365,954	314,895	460,731	438,519	222,502	162,623
Total - All Countries	457,282	451,899	377,716	651,435	799,132	396,560	286,723
				- per cent -			
GPT Imports as % of Total Imports	14.7	19.0	16.6	29.3	45.1	43.9	43.3
Korea as % of GPT Imports	73.8	66.3	65.7	74.7	85.7	85.1	79.8
Japan and U.S.A. as % of Total Imports	74.9	75.5	82.8	66.4	47.7	49.6	52.9

Notes:
(a) Includes color television sets, kits and combinations under commodity classes 637-11, 637-13, and 637-14, at the 5-digit level for 1972 to 1976, and the 7-digit level for 1977 to 1985.
(b) Excludes imports under tariff item 44597-1 for the years 1984 and 1985.

Source: Statistics Canada, Catalogue Nos. 65-203 and 65-207, Merchandise Trade. 1972 to 1980 Tariff Board; Import Analysis Study 1981 to 1985.

the GPT also originate from Singapore and Hong Kong. Imports under the category of "other" GPT countries reflect primarily colour televisions produced in Malaysia.(1)

Imports by country are also presented in Table 2 but now on a value basis. This second table reflects the same import trends as does Table 1, namely, the pronounced rise in total import levels and the emergence of GPT imports, mainly from Korea. Nonetheless, there is a notable difference; GPT imports are substantially less significant when measured on a value rather than quantity basis, e.g., in 1984, 32.5 per cent as against 45.1 per cent. This comparison indicates that colour televisions supplied from Korea and other GPT countries tend to be sets of smaller sizes and lower prices relative to imports from Japan and the U.S.A.

B. Import Trends by Size of Television Receiver

From 1977 onwards import data respecting colour television sets have been collected, and are available, on a more detailed format (i.e., based on 7-digit commodity classes). This more detailed reporting permits a break-down of imports by country according to the size of the screen. These more disaggregated data permit the separate identification of imports of kits and combinations. The data are contained in Appendix Table 1 but are summarized in Table 3. The pertinent 7-digit commodity classes, from which the Appendix data are derived, are listed below:

637-11-21	Receivers, TV, colour, under 10 in.
637-11-22	Receivers, TV, colour, 10 to 18 in.
637-11-61	Receivers, TV, colour, comb, under 19 in.
637-11-80	Receivers, TV, colour, complete kit, under 19 in.
637-13-21	Receivers, TV, colour, 19 in.
637-13-61	Receivers, TV, colour, comb, 19 in.
637-13-80	Receivers, TV, colour, complete kit, 19 in.
637-14-21	Receivers, TV, colour, over 19 in.
637-14-61	Receivers, TV, colour, comb, over 19 in.
637-14-80	Receivers, TV, colour, complete kit, over 19 in.

(1) Published import data, based on the country of export, record imports of colour televisions from other GPT status countries (e.g., Indonesia). However, such imports do not reflect the country of original manufacture. Among the GPT status countries, colour televisions are produced, and exported to Canada, only from Korea, Singapore, Hong Kong and Malaysia.

TABLE 2: COLOUR TELEVISION SETS: VALUE OF IMPORTS, ALL SIZES AND TYPES, 1972-1985[a]

	1972	1973	1974	1975	1976	1977	1978	1979
				- $000 -				
GPT								
Korea	-	-	-	1	117	215	1,738	15,185
Singapore	-	-	899	2,831	7,764	7,365	9,565	12,233
Hong Kong	3	22	3	2	279	2	-	1
Other	15	*	*	2	-	-	-	1
Total GPT	18	22	902	2,836	8,160	7,582	11,303	27,420
Non-GPT								
Japan	33,940	34,551	52,071	42,974	85,002	88,730	67,462	37,535
Taiwan	234	2,213	2,360	1,270	2,095	592	6,569	12,149
U.S.A.	47,085	67,608	59,230	40,679	47,843	54,920	122,167	119,052
Other	*	1	21	21	4	2	4	13
Total Non-GPT	81,259	104,373	113,682	84,944	134,944	144,244	196,202	168,748
Total - All Countries	81,279	104,397	114,585	87,781	143,104	151,827	207,505	196,168
				- per cent -				
GPT Imports as % of Total Imports	0.0	0.0	0.8	3.2	5.7	5.0	5.5	14.0
Korea as % of GPT Imports	0.0	0.0	0.0	0.0	1.4	2.8	15.4	55.4
Japan and U.S.A. as % of Total Imports	99.7	97.9	97.1	95.3	92.8	94.6	91.4	79.8

TABLE 2 (Concl.)

	1980	1981	1982	1983	1984	1st Half 1984(b)	1st Half 1985
				- $000 -			
GPT							
Korea	10,390	10,864	8,732	26,982	60,893	23,377	19,244
Singapore	3,851	6,369	6,459	9,016	8,279	336	3,877
Hong Kong	2	4	101	298	1,168	425	307
Other	1	8	-	883	1,883	902	1,046
Total GPT	14,244	17,245	15,291	37,178	72,223	25,040	24,475
Non-GPT							
Japan	22,500	37,838	40,528	63,443	55,439	29,391	23,045
Taiwan	13,045	7,174	426	6,015	12,331	5,485	2,241
U.S.A.	105,169	90,036	81,772	87,417	82,016	40,533	32,982
Other	170	13	10	8	124	5	282
Total Non-GPT	140,883	135,061	122,737	156,900	149,910	75,414	58,550
Total - All Countries	155,127	152,305	138,028	190,176	222,133	100.454	83,024
				- per cent -			
GPT Imports as % of Total Imports	9.2	11.3	11.1	19.2	32.5	24.9	29.5
Korea as % of GPT Imports	72.9	63.0	57.1	72.6	84.3	93.4	78.6
Japan and U.S.A. as % of Total Imports	82.3	84.0	88.6	77.7	61.9	69.6	67.5

Notes:
(a) Includes color television sets, kits, and combinations under commodity classes 637-11, 637-13, and 637-14, at the 5-digit level for 1972 to 1976 and the 7-digit level for 1977 to 1985.
(b) Excludes imports under tariff item 44597-1 for the years 1981 to 1985.
Source: Statistics Canada, Catalogue Nos. 65-203 and 65-207, Merchandise Trade.
Tariff Board Import Analysis Study - 1981 to 1985.

TABLE 3: COLOUR TELEVISION SETS: IMPORT[a] DISTRIBUTION BY SCREEN SIZE, 1979 AND 1984

	1979		1984	
	000 Units	As %	000 Units	As %
Sets (under 10 inch)	3.0	0.5	17.1	2.1
Sets (10 to 18 inch)	174.5	29.3	316.6	39.7
Sets (19 inch)	77.4	13.0	33.5	4.2
Sets (over 19 inch)	312.9	52.5	422.2	52.9
Kits & combinations	28.8	4.8	8.5	1.1
Total Imports	596.6	100.0	797.9	100.0

Notes:

Totals may not add due to rounding.
(a) Imports under tariff items 44533-1 and 44533-4.

Source: Appendix Table 1.

As can be observed from the listing earlier given, many of the 7-digit import classes cover products of minor significance. Thus, in summary Table 3, both colour televisions entered in "knocked-down" form as "kits" and sets entered as a "combination" with some other device, are quite unimportant. Such kits and combinations, even taken together, accounted in 1984 for only 1.1 per cent of total imports, as shown. Kits are mainly imported from Japan, while in most years combinations have been chiefly imported from the U.S.A. Sales to Canada of colour television sets with screens of under 10 inches, predominantly from Taiwan and Japan, have risen since 1979, but they nonetheless comprise so far only a small proportion (2.1 per cent in 1984) of total imports. It can also be seen that imports of 19-inch screen sets have declined, both in number and as a percentage of total imports, and that they now are of minor importance.

Essentially, summary Table 3 shows that virtually all imports of colour television sets fall into two categories, sets with a screen size of 10 to 18 inches and sets with a screen size exceeding 19 inches. In 1984, sets in these two size groups constituted over 92 per cent of all imports into Canada. As further indicated, imports with screen sizes of over 19 inches

(commodity class 637-14-21) accounted for 52.9 per cent of total imports in 1984. On a value basis, the counterpart figure is appreciably higher, 62.6 per cent.[1] Comparing the break-down of imports in 1984 with their structure five years earlier, it is evident that in 1979 the same two import categories accounted for the preponderance of imports. However, the data provided reflect a relative growth in the 10 to 18-inch screen size in the past five years and a declining significance of the 19-inch size.

Data for colour television imports, by screen size and type, from all GPT countries are also provided in Appendix Table 2. This information is summarized in the following table with a separate break-down for Korea.

TABLE 4: COLOUR TELEVISION SETS: IMPORT[a] DISTRIBUTION BY SCREEN SIZE, GPT COUNTRIES, 1979 AND 1984

	1979		1984	
	000 Units	As %	000 Units	As %
TOTAL GPT IMPORTS				
Sets (under 10 inch)	-	0.0	2.6	0.7
Sets (10 to 18 inch)	50.0	42.3	202.9	56.4
Sets (19 inch)	4.6	3.9	4.6	1.3
Sets (over 19 inch)	61.8	52.3	149.4	41.5
Kits & combinations	1.8	1.5	.4	0.1
Total GPT	118.1	100.0	359.9	100.0
Of which:				
IMPORTS FROM Korea				
Sets (under 10 inch)	-	0.0	2.6	0.8
Sets (10-18 inch)	34.4	46.1	157.8	51.1
Sets (19 inch)	4.6	6.2	4.1	1.4
Sets (over 19 inch)	35.6	47.7	143.7	46.6
Kits & combinations	-	0.0	.4	0.1
Korea Total	74.6	100.0	308.5	100.0

Notes:
Totals may not add due to rounding.
(a) Imports under tariff items 44533-1 and 44533-4.

Source: Appendix Table 1.

(1) As derived from Appendix Table 2.

It is evident that GPT-country exports to Canada of colour sets of under 10 inches, kits and combinations, and 19-inch sets are negligible and insignificant. GPT imports are almost entirely made up of sets in the 10 to 18-inch range and of those with a screen size of over 19 inches. A similar pattern is visible for imports from Korea.

For both total GPT imports and Korean imports sets in the 10 to 18 inch screen size category have grown most since 1979. The Board's study of import documents makes it quite clear that, within the pertinent commodity class (637-11-22), imports of the 14-inch set predominate, accounting currently for over 90 per cent of total GPT imports in the 10 to 18-inch category.(1) This finding also applies to colour sets entered from Korea.(2)

There has also been a substantial increase in the number of colour televisions entered under commodity class 637-14-21, i.e., sets of over 19 inches. It should be noted that these imports fall almost entirely (over 99 per cent) into two set sizes, the 20-inch screen size and the 26-inch screen size. Imports in the over 19-inch category totalled 422,000 units in 1984 (See Table 3). Of this total, the Board estimates that 81 per cent consisted of imports of the 20-inch size and that the remainder represented imports of the 26-inch size. However, all GPT imports in the over 19-inch import category have consisted only of the 20-inch screen size and therefore, the pronounced expansion in GPT imports indicated in Table 4 relates solely to this size of colour television set.

The larger 26-inch set is typically a console model which is bulky and costly to transport from overseas manufacturers, and accordingly, imports of the 26-inch set have been predominantly (92 per cent) from the U.S.A. with

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(1) As based on the Board's study, sets of the 14-inch screen size accounted in 1984 for an estimated 92.7 per cent of total GPT imports under commodity class 637-11-22. Remaining imports were chiefly of the 13-inch size (6.6 per cent). The corresponding figures for 1983 are 94.1 per cent (14-inch size) and 4.8 per cent (13-inch size).

(2) As based on the Board's study, Korean imports under commodity class 637-11-22 in 1984 were 96.7 per cent comprised of the 14-inch screen size. The corresponding figure for 1983 is 92.6 per cent.

the remainder being shipped from Japan. Thus, in contrast to Korea and other GPT suppliers, Japan has shipped some large-sized sets, mostly 26-inch but also 28-inch sizes, to the Canadian market. However, these larger sets are evidently table models rather than the bulky and heavier console types.

Statistical information provided in Appendix Table 2 to this report also includes a disaggregation, by dollar value, of colour television imports into Canada. As commented upon earlier, import data for colour televisions according to value generally portray the same composition and similar trends as do imports on a quantity or unit basis.

IX. THE CANADIAN MARKET FOR COLOUR TELEVISION SETS

Estimates of the Canadian market are calculated as the total of shipments by domestic manufacturers plus imports less exports. Shipments are defined as sales by manufacturers of colour television receiving sets and exclude shipments of imported products.(1) Data on domestic production and inventories, as explained earlier, has for the period 1982 to 1985, been compiled by the Board as part of the present inquiry. For prior years, figures have been arrived at from both published and unpublished data. Exports of colour TV's are based on commodity class 637-20, which comprises colour sets because monochrome sets, also covered in this class, are not produced in Canada any longer. Combinations, classified elsewhere, are also not domestically produced and so there is no exports of such goods. For the period 1972-1985, data pertaining to the domestic market, and its principal components, are presented, in terms of units, in Table 5.

The following analysis of trends in the Canadian market centers primarily on ratios reflecting changes in market shares between imports and domestic production. First, trends in the overall market are considered. This is then followed by an analysis of the various sub-markets based on the screen size of a television set.

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(1) Shipments include sales out of inventory and are, therefore, not equivalent to production. Figures for annual shipments used here represent production adjusted for inventory change.

TABLE 5: COLOUR TELEVISION SETS: THE CANADIAN MARKET, BY UNITS, 1972-1985[(a)]

	1972	1973	1974	1975	1976	1977	1978	1979
				- 000's -				
Shipments	515.7	598.8	521.2	419.9	419.3	305.0	297.8	338.7
Total Imports	312.3	371.3	449.6	325.0	585.5	548.6	600.5	596.6
of which:								
Korea	-	-	-	-	0.7	1.3	8.8	74.6
Total GPT	0.1	0.2	4.4	13.1	38.4	36.6	46.0	118.1
Japan	169.5	160.9	249.1	198.6	410.4	364.9	227.4	135.7
U.S.A.	141.1	197.7	183.7	106.5	125.7	144.6	301.8	292.9
Total Non-GPT	312.2	371.1	455.2	311.9	547.1	512.0	554.5	478.5
Total Supply	828.0	970.1	970.8	744.9	1,004.8	853.6	898.3	935.3
Less: Exports(c)	5.9	2.0	3.2	4.7	17.4	80.5	196.8	92.8
Canadian Market	822.1	968.1	977.6	740.2	987.4	773.1	701.5	842.5
				- per cent -				
GPT Imports as % of Total Imports	0.0	0.1	1.0	4.0	6.6	6.7	7.7	19.8
Total Imports as % of Canadian Market	38.0	38.4	46.0	43.9	59.3	71.0	85.6	70.8
GPT Imports as % of Canadian Market	0.0	0.0	0.5	1.8	3.9	4.7	6.6	14.0
Korea as % of Canadian Market	0.0	0.0	0.0	0.0	0.1	0.2	1.3	8.9
Japan and U.S.A. as % of Canadian Market	37.8	37.0	44.3	41.2	54.3	65.9	75.4	50.9
Domestic Shipments as % of Canadian Market(d)	62.0	61.6	54.0	56.1	40.7	29.0	14.4	29.2

	1980	1981	1982	1983	1984(b)	1st Quarter 1984(b)	1st Quarter 1985
				- 000's -			
Shipments	486.0	545.4	542.6	699.3	695.8	184.0	201.6
Total Imports	457.3	451.9	377.7	651.4	799.1	196.8	151.1
of which:							
Korea	49.6	57.0	41.3	142.5	309.2	74.0	54.9
Total GPT	67.2	85.9	62.8	190.7	360.6	83.9	66.5
Japan	92.2	145.9	148.9	242.6	194.1	55.0	41.5
U.S.A.	250.5	195.5	163.9	189.8	187.1	43.4	40.4
Total Non-GPT	390.1	366.0	314.9	460.7	438.5	196.8	84.6
Total Supply	943.3	997.3	920.3	1,350.7	1,494.9	380.8	352.7
Less: Exports(c)	68.3	78.4	66.5	78.2	95.0	20.0	36.7
Canadian Market	875.0	918.9	853.8	1,272.5	1,399.9	360.8	316.0
				- per cent -			
GPT Imports as % of Total Imports	14.7	19.0	16.6	29.3	45.1	42.7	44.0
Total Imports as % of Canadian Market	52.3	49.2	44.2	51.2	57.1	54.5	47.8
GPT Imports as % of Canadian Market	7.7	9.4	7.4	15.0	25.8	23.3	21.1
Korea as % of Canadian Market	5.7	6.2	4.8	11.2	22.1	20.5	17.4
Japan and U.S.A. as % of Canadian Market	39.2	37.1	36.6	34.0	27.2	27.3	25.9
Domestic Shipments as % of Canadian Market	47.7	50.8	55.8	48.8	42.9	45.5	52.2

Notes:
(a) Includes colour sets, kits and combinations.
(b) Excludes imports under tariff item 44597-1 for the year 1984.
(c) Reported by Statistics Canada under commodity class 63720, TV Receiving Sets, Exc. combination.
(d) Shipment less exports as per cent of the Canadian market.
Source: Statistics Canada, Catalogue No. 65-004, Exports by Commodities; Catalogue Nos. 65-203 and 65-207, Merchandise Trade; and the Tariff Board.

A. The Market in Aggregate

Canadian manufacturers shipped more than 500,000 colour television sets in the early 1970's, i.e., prior to the introduction of the GPT preference. Sales dropped by 100,000 units in 1975 and 1976 with the GPT in effect. The ensuing two years saw a further decline in shipments, to less than 300,000 units. Subsequently, shipments rose to close to 550,000 units in 1981 and 1982 and increased to nearly 700,000 units in 1983 and 1984. In 1977, the government introduced the Colour Television Manufacturing Rationalization Program in which, as discussed, the remission of duties and the withdrawal of the GPT Free rate were the principal elements. This appears to have assisted in the stabilization of the industry. Subsequently, supported by a sharp rise in domestic demand, sales by domestic manufacturers were, in 1983, at a record level for the period reviewed here and were sustained in 1984 with only a fractional decline.

Exports of colour television sets were small and of minor importance in terms of total demand up to 1976. They rose sharply in 1977 and 1978, to 197,000 units in the latter year, influenced by the Rationalization Program. However, a severe decline in exports followed in 1979, and export sales continued to weaken until 1982. In 1983 and 1984 there was a rebound in export sales, a development which was carried over into the first quarter of 1985. Up to and including 1976, the Canadian industry sold more than 95 per cent of its total shipments in the domestic market. An abrupt change took place in 1978 when the industry marketed less than a third of its shipments in the home market. Thereafter concentration on the domestic market intensified again with at least 85 per cent of industry shipments being sold in Canada. In the recent three or four years exports of colour televisions have primarily reflected the sales of one manufacturer which exports to the U.S.A. only.

The Canadian colour television market, despite sharp year-to-year fluctuations, has essentially shown little upward or downward direction for the period from 1972 to 1982 inclusive. During that period 1978 constituted a record low, with sales of 702,000 units, while in 1973 and 1974 the market

was much stronger, averaging some 973,000 units. In 1983 Canadian sales jumped upwards to 1,270,000 sets compared to 850,000 in the previous year, an increase of 420,000 sets. In the subsequent year the domestic market rose again, by 128,000 units, to a total of 1,400,000 units. Thus, it can be seen that since the Board's last report the Canadian market has been particularly strong. However, results for the first quarter of 1985, compared to the corresponding period in 1984, suggest a decline from these record sales and appear to indicate a market adjustment to a lower level. In dollar value the Canadian colour television market is close to $450 million. This total for 1984 (see Appendix Table 3) is based on factory level prices for shipments and, for imports, on landed cost less duty and freight. The colour television market, at the retail price level, would be much higher, probably well over $1 billion.

The ratios presented as part of Table 5 depict quite clearly the trends which have taken place in import penetration. From 1972 to 1978 import penetration, i.e., total imports expressed as a percentage of the domestic market, increased markedly, from 38.0 per cent to 85.6 per cent. As a result, the market share met by Canadian producers fell to some 14 per cent. Most of this increase in market share captured by imports resulted from colour sets entered from non-GPT countries, principally Japan and the U.S.A.; the non-GPT market share advanced from 38.0 per cent in 1972 to 79.0 per cent in 1978. Over this same period, but to a lesser degree, imports from GPT countries also expanded. Such imports, virtually non-existent in 1972 and 1973, had gained a market share of 1.8 per cent by 1975, rising to 3.9 per cent in the following year. During these two years the rate of Free was in effect under the GPT schedule. However, in 1977 and 1978, despite the suspension for the first time of the GPT rate, exporters in GPT countries made further inroads into the Canadian market, increasing their share to 6.6 per cent.

In the subsequent period from 1978 to 1982 import penetration, overall, diminished quite notably and, accordingly, the market share held by Canadian producers expanded, from 14.4 per cent to 55.8 per cent. During this time, however, it was the imports from non-GPT suppliers which lost most

ground, declining from 79.0 per cent in 1978 to 36.9 per cent in 1982. While the GPT rate of Free was still suspended over these years, GPT suppliers were able to maintain and slightly increase their market share, which rose to 7.4 per cent.

Since 1982, GPT producers have greatly extended their penetration of the domestic colour television market, to 25.8 per cent in 1984. In contrast to the preceeding period, not only now, were non-GPT suppliers forced to retreat (see Table 6 below) but the Canadian industry at this time also experienced a pronounced drop in market position, from 55.8 per cent in 1982 to 42.9 per cent in 1984. In the 1982-1984 period only minor increases in penetration were achieved by GPT countries other than Korea and by non-GPT countries other than Japan and the U.S.A. In contrast, the gains achieved by Korea have been most pronounced. The loss of 13 percentage points by Canadian producers nearly matches the advance of 17 percentage points achieved by Korea.

Preliminary figures for 1985 suggest a possible turnaround in the market position of the Canadian industry as its sales in the domestic market have expanded while market demand has diminished. However, only data for the first quarter of 1985 are available.

TABLE 6: COLOUR TELEVISION SETS: THE CANADIAN MARKET, CHANGES IN MARKET SHARES

	% Market Share 1978	% Market Share 1982	% Market Share 1984	Percentage Point Gain/Loss 1982-84
GPT suppliers	6.6	7.4	25.8	+18.4
of which: Korea	1.3	4.8	22.1	+17.3
Non-GPT suppliers	79.0	36.9	31.3	- 5.6
of which: Japan & U.S.A.	75.4	36.6	27.2	- 9.4
Canadian producers	14.4	55.8	42.9	-12.9

Source: Derived from Table 5.

B. Market Structure and Trends by Screen Size

In this section, the domestic market and developments regarding import penetration are examined in terms of the various market segments determined by size of screen. From import documents, the Board was able to identify the imports of specific screen sizes; such data are not otherwise available from the broader size groupings used in published import data. Also, the Board obtained data on Canadian production according to set size. Although details could be assembled only from 1982 onwards, they enable a more incisive analysis of the Canadian colour television market for 1982 to 1984 as the various sub-markets can now be estimated. (See Table 7, following).

As noted earlier three screen sizes predominate within the total market, namely the 14-inch, 20-inch, and 26-inch sizes. These three sub-markets accounted for over 90 per cent of the total domestic market in 1984. Further, these three main sizes accounted for an even greater proportion of the growth in the domestic market from 1982 to 1984.

In terms of number of sets, the 20-inch size constitutes the largest market segment, at present comprising an estimated 47 per cent of total sales. The market for sets with 14-inch screens is considerably smaller,(1) while that for the 26-inch size accounts for some 18 per cent of the total market. It should be pointed out, however, that the price of a 26-inch set is substantially higher than those with smaller screen sizes. In terms of dollar sales, as compared to sales in units, the 26-inch screen size comprises an estimated 33 per cent of the total market.

In the preceeding analysis, two significant developments were pointed out for the 1982-1984 period, namely, the pronounced expansion of the market in general and the sharply increased penetration achieved by manufacturers in GPT countries, chiefly Korea. From Table 7 it is apparent that the changes in

(1) For reasons of confidentiality complete data respecting the 14-inch market cannot be given. As will be noted in Table 7, figures respecting the 14-inch screen size are for this reason provided only in an indexed format.

TABLE 7: COLOUR TELEVISION SETS: THE CANADIAN MARKET, SELECTED MARKETS ACCORDING TO SCREEN SIZE, BY UNITS, 1982-1984

	14-Inch Size (As Index)[a]			20-Inch Size			26-Inch Size		
	1982	1983	1984	1982	1983	1984	1982	1983	1984
					- 000's -			- 000's -	
Shipments	391	622	694	271.1	333.4	306.7	195.9	259.3	274.0
Total Imports[b][c]	609	1,435	1,629	143.5	266.5	350.3	46.6	55.2	71.8
of which:									
Korea	115	491	946	16.2	58.7	144.4	-	-	-
Total GPT	142	794	1,194	16.2	58.7	150.2	-	*	-
Japan	349	511	353	60.5	107.4	83.5	0.2	4.9	8.8
U.S.A.	118	107	072	66.8	86.6	85.8	46.4	48.3	63.0
Total Non-GPT	467	641	434	127.3	207.7	200.2	46.6	53.2	71.8
Total Supply	1,000	2,057	2,322	414.6	599.9	657.0	242.4	314.5	345.8
Less: Exports[d]	-	-	-	-	-	-	66.5	78.2	95.1
Canadian Market	1,000	2,057	2,322	414.6	599.9	657.0	175.9	236.3	250.7
					- per cent -				
GPT Imports as % of Total Imports	23.3	55.3	73.3	11.3	22.0	42.9	-	*	-
Total Imports as % of Canadian Market	60.9	69.8	70.1	34.6	44.4	53.3	26.5	23.4	28.7
GPT Imports as % of Canadian Market	14.2	38.6	51.4	3.9	9.8	22.9	-	*	-
Korea as % of Canadian Market	11.5	23.9	40.8	3.9	9.8	22.0	-	-	-
Japan and U.S.A. as % of Canadian Market	46.7	30.0	18.3	30.7	32.3	25.8	26.5	22.5	28.7
Domestic Shipments as % of Canadian Market[e]	39.1	30.2	29.9	65.4	55.6	46.7	73.5	76.6	71.3

TABLE 7 (Concl.)

Notes: * Indicates less than 0.05 per cent.

a) In index form for reasons of confidentiality.

b) Imports by screen size are in part estimated, being based on a survey of import documents. For the years 1982, 1983 and 1984 the screen size of a set could be determined for imports comprising 74.4 per cent, 83.8 per cent, and 69.2 per cent, respectively, of all imports, by units, under the pertinent two commodity classes (637-11-22 and 637-14-21).

c) Imports exclude kits and combinations.

d) As reported by Statistics Canada under commodity class 637-20. Exports are assumed to be all in the size category of over 20 inches.

e) Shipments less exports as per cent of the Canadian market.

Source: Statistics Canada catalogue no. 65-005, Exports by Commodities; catalogue nos. 65-203 and 65-207, Merchandise Trade; the Tariff Board.

GPT import penetration have resulted from developments in the markets for 14-inch and 20-inch sets and did not result from import penetration in the 26-inch market segment, which is unique is this respect.

The 14-inch market has more than doubled between 1982 and 1984. While domestic sales by the Canadian industry have also increased, the rise in imports has been much more rapid. Consequently, the share of the market held by Canadian manufacturers fell, from 39.1 per cent to 29.9 per cent. At the same time, there has been an upward surge in the market share captured by GPT imports, notably Korea. The pronounced increase in GPT imports, to over 50 per cent, has primarily affected non-GPT imports, mainly from Japan and the U.S.A. But, increased GPT import penetration has also led to a declining share for the domestic industry in the market for 14-inch sets.

Parallel changes are evident in Table 7, for the market segment comprised of 20-inch sets. This market experienced the largest gain in demand over 1982 to 1984, an increment of about 242,000 units. Of this increase in demand, GPT producers gained 134,000 sets and were able to raise their market share from 3.9 per cent to 22.9 per cent. Korean exporters accounted for almost all of this gain. In this case the impact of GPT imports appears to have, primarily, resulted in a sharp loss in market position for domestic producers, whose market share fell from 65.4 per cent to 46.7 per cent. In contrast, non-GPT imports retained an essentially unchanged market share.(1)

The market for 26-inch sets, in numbers the smallest market segment, expanded by over 40 per cent between 1982 and 1984. Imports from non-GPT sources supplied 26.5 per cent of this segment in 1982, rising to a 28.7 per cent share in 1984. There were no GPT-country imports during the period in question of this larger size of set nor have there been any such imports previously. While the share of this market held by the domestic industry has declined slightly, total Canadian shipments of 26-inch sets have nonetheless expanded because a substantial, and increasing, proportion of production is exported.

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(1) A decrease in market share for Japan and the U.S.A. was about offset by imports from other non-GPT suppliers (i.e., Taiwan).

As discussed earlier, sets with a 26-inch screen size have not been entered by overseas suppliers in any appreciable volume because of the high cost of shipping these large, bulky models. At least until 1982, this market segment has been uniquely limited to suppliers in the U.S.A. and Canada. This market segment is an important one to the Canadian industry because of its large dollar sales volume and because domestic producers have held the dominant market position. To date, no GPT supplier has entered this market segment.(1) It appears, however, that ocean transport costs are becoming much less of an impediment to competition from overseas suppliers as the bulkiness of the set has been reduced as a result of technological advances. For example, imports of the 26-inch size from Japan were negligible prior to 1983. However, shipments of this screen size from Japan are now emerging and have expanded to 8,800 sets in 1984. Japanese television manufacturers have in recent years manufactured a compact version of the 26-inch screen size and of a 28-inch size as well. These compact table models, also termed "monitor style", can be shipped, reportedly, to Canada at a cost not significantly greater than that for shipping 20-inch colour sets.

The structure of the colour television market in Canada is also determined by basic design types, as well as by various models, as opposed to the size of the screen alone. There are major differences between the console design which can be likened to a furniture item, and a table type model. The distinction between a "table" model relative to a "portable" set is not as significant. Of more importance is the fact that colour television sets differ considerably depending on the various electronic options or features which may be included. For any given screen size and basic design, a mechanically tuned, i.e., "rotary" model, can be described as a "bottom of the line" model. But, this same size of set can be much higher in price if other options are added, such as electronic tuning, or remote control, or "cable-ready" features. Taking into account the various designs and numerous models available, the colour television market could theoretically be subdivided into many market segments.

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(1) The Board's study of import invoices indicated that, at least until December, 1984, no 26-inch sets were imported from GPT countries.

In collecting its data the Board, did not attempt such extensive disaggregation. However, information assembled by the Board did indicate that, for almost all domestic manufacturers, mechanically-tuned models were high-volume items for both 14 and 20-inch sets. Furthermore, estimates provided by the domestic industry indicated that some 56 per cent of production[1] was accounted for by mechanical models with the balance held by models with electronic tuning or with electronic tuning/remote control. Regarding the overall market, mechanically-tuned models probably claim over 40 per cent of sales.

During the public hearing it was contended that GPT imports were, to a great extent, comprised of basic, mechanically-tuned sets as compared to sets with added options. A comparison of selected commodity classes shows the average unit value of GPT imports to be consistently less, sometimes greatly so, than unit values for similar domestically-made sets. This kind of comparison can be clouded by other pricing factors. Nonetheless, from fragmentary data available it appears likely that GPT imports, compared to sets sold by other suppliers, are composed to a larger degree of basic, or "bottom-line", models than models with extra and more expensive features.

X. OTHER ECONOMIC FACTORS

The following section considers certain other characteristics and recent developments respecting the domestic industry and, more generally, the market for colour televisions. A principal discussion in this section centers on the nature and size of the colour television manufacturing industry in GPT countries, especially Korea.

A. Employment, Productivity and Technology

The table below shows industry employment, and its composition, for the years 1982 to 1985:

(1) This estimate is based on sales, in units, of set sizes from 10 inches to 20 inches for 1984.

TABLE 8: COLOUR TELEVISION SETS: EMPLOYMENT IN CANADIAN MANUFACTURING, 1982-1985[a]

	1982	1983	1984	1st Quarter 1985
In production	639	667	676	624
In administration	275	300	324	307
Total	914	967	1,000	931

Notes:
(a) Annual average of data reported on quarterly basis.
Source: Tariff Board.

During 1982 to 1984, employment at the five Canadian manufacturers of colour televisions increased from 914 to 1,000 persons, a gain of 9.4 per cent. Shown in Table 8 as well, are more current employment figures indicating a possible softening for the first quarter of 1985. Reductions in employment appear, from the quarterly data submitted, to have commenced in the second half of 1984 as sales were less robust than anticipated, resulting in unusually high year-end inventories for 1984. A further 850 persons were employed by the main suppliers to this industry in the manufacturing of colour picture tubes, cabinets and cabinet parts. On this basis, combined employment in colour television manufacturing and in related component parts production totalled approximately 1,850 persons in 1984.

This employment figure does not include people engaged in the selling and marketing of colour television sets. These activities are carried out by closely affiliated, though separate, organizations. An additional 500 persons are estimated to have been employed at the distributor/wholesaler level in 1984 by the marketing affiliates of domestic television producers. It should be noted that this employment would be comparatively unaffected by increased GPT or overall import competition. The preceding figure for sales personnel was provided by individual companies reporting and excludes the sales force engaged in the marketing of consumer electronic products other than colour televisions. Also excluded are all persons engaged in sales at the retail level.

Measured by the number of sets produced annually per employee productivity has risen significantly in this industry between 1982 and 1984. Over this period, while there was a modest growth in employment, this was exceeded by a marked increase in production. Annual output per manufacturing employee increased from 569 sets in 1982 to 736 sets in 1984, a gain of 29.3 per cent.[1] To a minor extent, this improvement may have resulted from the increased automation of assembly lines. However, for the most part, it is thought to reflect a fuller utilization of the labour force as production expanded sharply in 1983 and 1984 from its low level in 1982.

With respect more generally to technology, domestic manufacturers, with the possible exception of Electrohome, undertake little or no product innovation or development in Canada. The research and product development function is carried on at the main production locations of the various parent companies, in Japan and in the U.S.A. The corporate parents are world leaders in the television/consumer electronics field, and provide their Canadian affiliates with direct access to the latest technology and product design features, a factor of considerable importance in market competition with GPT imports.

B. Capital Expenditure and Industry Manufacturing Capacity

Over the five years 1980 to 1984, capital investment by the industry has totalled about $13.1 million and averaged some $2.6 annually.[2] In 1984 capital spending was particularly high, $6.3 million, reflecting a substantial investment by Matsushita on its Toronto facility and an automated production line. Two other television producers expanded their manufacturing plants during 1982-1984 and there has as well been further spending on testing and quality control equipment.

(1) The corresponding estimate for productivity gain, in terms of output per production worker, is somewhat higher, 33.6 per cent.

(2) These figures understate total expenditure on plant expansion and new equipment as many such costs are expensed rather than capitalized and reported as capital investment.

One result of these capital expenditures has been an increase in the Canadian industry's production capacity in recent years. A summary is provided below.

	1982	1983	1984
Industry production capacity (units)	840,000	925,000	1,000,000
Utilization of capacity(1)	61.9%	76.6%	73.4%
Increase in Production Capacity (%)	N/A	10.1%	8.1%
Increase in Production (%)	N/A	36.0%	4.0%

Although capacity data provided by companies were in part estimated, overall industry capacity appears to have risen by about 20 per cent over 1982-1984. A substantial improvement in plant utilization apparently took place in 1983, which is consistent with the sharp increase in production and shipments reported for that year. A decline in capacity utilization occurred in 1984 when production evidently did not increase as anticipated.

C. Production Costs

The Board has also obtained data on the production costs for colour television in Canada (Table 9). Material costs, chiefly components and parts already sub-assembled, account for 87.0 to 90.0 per cent of total unit factory production cost for all three set sizes examined. Factory labour cost,(2) a much less significant cost element, ranges from 3.6 to 6.5 per cent. The rest is accounted for by factory overhead and "other costs".(3)

(1) Based on an industry weighted average; plant capacity was calculated on a one shift schedule.
(2) Factory labour cost includes both direct and indirect labour as well as the cost of fringe benefits.
(3) As reported, factory overhead was mainly comprised of various administration expenses followed by taxes, heat/light and power.

Material costs include in approximate order of importance the chassis sub-assembly, the picture tube, and the cabinet together with cabinet parts such as back-plates and masks, and other components. All materials and components are imported for the 14-inch screen size. For the 20-inch and 26-inch sets, while all chassis sub-assemblies are imported as well, picture tubes and cabinets, the latter especially for the largest size set, are in part procured from domestic suppliers. Canadian materials content accounted in 1984 for 28.8 per cent of total factory cost for 26-inch sets and 19.1 per cent for 20-inch sets. With factory labour, factory overhead, and most other costs incurred domestically, total Canadian content of the 14-inch set was 11.8 per cent, of the 20-inch set 31.3 per cent, and for the 26-inch set 40.1 per cent. Conversely, foreign content was respectively 89.2, 68.7, and 59.9 per cent.

Total unit factory production costs, using data provided by Canadian manufacturers, have declined over the period 1982 to 1984, especially for the 14-inch and 20-inch sets. This reduction was primarily due to lower material and component costs which are, as demonstrated, by far the largest cost component. The favourable exchange rate for the Japanese yen, which has probably reduced the laid-down cost of some imported chassis sub-assemblies, must be taken into account. However, factory labour cost per set has in general remained unchanged as higher wage rates and salaries were offset by higher labour productivity.

In this context, it may be observed that Canadian colour television assemblers, as subsidiaries of major multi-national firms, have strong ties with respect to sourcing. Thus, the Japanese-controlled firms in the domestic industry almost invariably source their non-domestic components from their parent company in Japan or from affiliated plants in other countries. Similarly, the one U.S.-owned Canadian producer also sources from affiliated plants.

TABLE 9: COLOUR TELEVISION SETS: PER UNIT PRODUCTION COSTS, CANADIAN INDUSTRY, 1982-1984

	1982		1983		1984	
	$	%	$	%	$	%
14-Inch Sets:						
Factory Labour	10.52	4.1	8.00	3.6	9.40	4.1
Materials	230.34	89.3	196.49	89.1	200.47	88.2
of which:						
Canadian	.03	0.0	.06	0.0	.06	0.0
Non-domestic	230.32	89.3	196.42	89.1	200.41	88.2
Factory Overhead(a)	8.56	3.3	8.31	3.8	8.78	3.9
Other Costs(b)	8.39	3.3	7.75	3.5	8.51	3.8
Total Per Unit Cost	257.82	100.0	220.55	100.0	227.39	100.0
20-Inch Sets:						
Factory Labour	19.28	5.9	20.82	6.5	19.43	6.2
Materials	289.14	88.0	280.15	87.0	274.94	87.8
of which:						
Canadian	101.18	30.8	56.46	17.5	59.77	19.1
Non-domestic	187.96	57.2	223.69	69.5	215.17	68.7
Factory Overhead(a)	11.63	3.5	12.88	4.0	10.98	3.5
Other Costs(b)	8.40	2.6	8.20	2.5	7.65	2.5
Total Per Unit Cost	328.45	100.0	322.04	100.0	313.00	100.0
26-Inch Sets:						
Factory Labour	25.16	5.1	30.57	6.2	25.81	5.3
Materials	441.49	89.7	433.87	87.9	436.00	88.7
of which:						
Canadian	193.00	39.2	134.21	27.2	141.75	28.8
Non-domestic	248.48	50.5	299.66	60.7	294.34	59.9
Factory Overhead(a)	15.01	3.1	17.84	3.6	15.45	3.1
Other Costs(b)	10.62	2.1	11.52	2.3	14.28	2.9
Total Per Unit Cost	492.27	100.0	493.81	100.0	491.54	100.0

Notes:
Totals may not add due to rounding.
(a) Includes administration, taxes, capital cost allowance, heat/light and power.
(b) Varies among reporting company and may include patent fees, selling expenses, maintenance/security, and interest expense.

Source: The Tariff Board.

D. Price Comparisons

For the 1982-1984 period, the average unit price respecting selected colour television sets from Korea was calculated by the Board from original invoices. Such price averages were obtained for mechanically-tuned sets with both 14 and 20-inch screens,(1) see below. Mechanical models, as indicated earlier, constitute the bulk of Korean imports.

Imports From Korea, Average Landed Unit Price, C.I.F.:(2)	1982	1983	1984
14-inch (mechanical)	$238.57	$200.39	$199.02
20-inch (mechanical)	$280.67	$252.71	$261.08

These estimates indicate that Korean unit prices for these models have remained essentially constant over 1983 and 1984 following a sharp price break between 1982 and 1983. From the documents examined it was evident that the above price changes were due mostly to changes in the exporter's price; fluctuations in ocean freight cost or exchange rates(3) were minor factors.

In arriving at total landed cost per unit, as above, ocean freight is a significant cost component. Colour television sets are typically exported in "containerized" shipments. Approximately 700 sets of the 14-inch screen size can be packed in a standard 40 ft. container, which currently costs $5,000 to $6,000 to ship from Seoul to Toronto. Taking into account additional transport-related charges, the ocean freight component comprises 4 to 5

(1) Import documentation specifies the importers model number rather than that of the foreign exporter which made identification with set specifications in exporters' catalogues difficult, with the exception of mechanical models.
(2) Landed price includes cost of freight, insurance and related transport charges plus duty and federal sales tax. The averages shown are on a weighted basis.
(3) According to Revenue Canada data, the value of the Korean won declined 5.5 per cent in 1983 relative to 1982. The won, subsequently, rose in value in 1984, by 1.5 per cent.

per cent of total landed cost per unit. The equivalent average freight cost is higher for the larger, 20-inch sets, 6 to 7 per cent, since a container holds fewer units (approximately 370) of this size.

TABLE 10: COLOUR TELEVISION SETS: AVERAGE LANDED UNIT COST, KOREAN IMPORTS; AVERAGE MANUFACTURER'S PRICE, DOMESTIC PRODUCT, 1984

	Korea: 1984 Average Import Landed Cost Per Unit, C.I.F.[(a)]			Canadian Manufacturer: Average Price Per Unit[(b)]	Price Differential
	High	Low	Average	Average	
14-inch, mechanical	$240.85	$191.11	$199.02	$260.51	$61.49
20-inch, mechanical	$316.46	$240.27	$261.08	$332.77	$71.69

Notes:
(a) Includes freight, insurance and related transport charges as well as duty and federal sales tax.
(b) Based on cost to distributor.
Source: The Tariff Board.

A comparison of the landed cost of Korean imports with similar domestically-produced models, at the comparable level of trade, indicates an advantage of about 24 per cent for the Korean product in the case of 14-inch sets; the price advantage favouring Korea, for 20-inch mechanical set, is very similar, about 22 per cent. This differential may be understated as the average price shown for the equivalent Canadian produced set, for both screen sizes could be on the low side. The individual company prices used in deriving the Canadian composite average was in several instances based upon special price situations, i.e., a high-volume direct sale to a large buyer.

The lower prices at which the Korean product enters the Canadian market reflects, undoubtedly, the lower cost of labour in Korea and the efficiencies of the world-scale operations of television producers in that country. On the other hand the pricing policy followed by the Korean colour

television industry has been a major factor as well. Such was the case in the U.S.A. where an examination by the United States International Trade Commission of price levels in the Korean domestic market and of Korean export prices to the U.S.A. has led to a finding of dumping and the imposition of penalties.

On September 3, 1985, the Deputy Minister of National Revenue for Customs and Excise initiated, in response to complaints registered by Canadian producers, an inquiry into the dumping from Korea of colour sets having a screen size from 10 inches to 24 inches inclusive. This suggests that Korean export pricing policy for these sizes has been a contributing factor in price erosion and in declining profitability. The extent to which Korean pricing policy has been a factor is not at issue here; the Board has, rather, been asked to determine whether or not reinstatement of the GPT on January 1, 1986 would cause or threaten to cause injury. It should be noted that the above recent announcement of the Deputy Minister does not pertain to colour television sets of the 26-inch screen size.

E. Industry Profitability

The domestic industry has also provided the Board with statistics on profits and profitability as summarized in Table 11. It must be noted that the reported profits pertain solely to the colour television manufacturing operations of the companies surveyed and not to their import/merchandising operations of these or other electronic consumer products.

Company by company there was a wide variance in profit levels and profit margins. These variations can be explained in part by differences in scale of production and basic plant efficiency, but they are also attributable to the prices at which completed colour sets are transferred between domestic assemblers and their affiliated sales companies. Reported profits, as well, are influenced by the transfer prices which apply between the Canadian assembler and its component supplier, also usually an affiliated company.

TABLE 11: COLOUR TELEVISION SETS: INDUSTRY PROFITS AND PROFIT MARGIN, BY SIZE OF SET, 1983 AND 1984

	1983 $000	1984 $000
Net Profit - Industry[a]	12,316.8	7,446.8
of which:		
Net Profit - 10 to 20-inch sets	1,811.2	(4,802.7)
Net Profit - 26 inch sets	10,505.6	12,249.5
Profit Margin - Industry[b]	3.9%	2.4%
Profit Margin - 10 to 20 inch sets	1.1%	(3.0%)
Profit Margin - 26 inch sets	7.3%	8.3%

Notes:
(a) Net profit is shown before tax.
(b) Profit margin is pre-tax net profit over sales.
Source: The Tariff Board.

Table 11 shows that industry profits and profitability declined substantially from 1983 to 1984, in the order of 40 per cent. It is estimated, based on four companies surveyed,[1] that industry profits increased by approximately 35 per cent between 1982 and 1983. It appears, thus, that a rise in profit in 1983 was followed by a roughly similar decline in 1984. Profitability, expressed by profits as a percentage of total sales, diminished from 3.9 per cent in 1983 to 2.4 per cent in 1984.

Profits and profit/margins for the smaller sets were, relatively, very low in 1983, disappearing entirely and turning into a large loss in 1984. In contrast, profits and profitability on 26-inch sets accounted for the bulk of the profits of colour television production in Canada. Further, profits on this size appear to have increased in 1984 from the previous year's level.

The conclusions which may be drawn from the financial data assembled in Table 11 are supported by discussions with industry officials. These revealed the general viewpoint that little or no profits are derived by Canadian producers in the market for 14-inch sets, and that the 26-inch market

(1) The data shown for 1983 and 1984 include all companies within the industry. The change between 1982 and 1983 is estimated from four companies which reported.

contributes most to industry profits. While the 20-inch market segment is also a profitable one, the view is that this results chiefly from the higher profit margins prevailing at the "top end" of this segment, i.e., for premium-priced models with various additional features.

F. The Colour Television Industry in GPT Countries

From the market share data introduced earlier it is evident that, since about 1978, there has been increasing pressure on the domestic market from television manufacturers in GPT countries. During these past six or seven years import competition from the traditional non-GPT suppliers, chiefly Japan and the U.S.A., has in fact receded greatly. The market share previously held by non-GPT imports has fallen by more than one-half. The ensuing discussion considers the factors which pertain more specifically to the nature of competition between GPT producers and the Canadian industry.

Among the four GPT countries which have a colour television industry, and which also export to Canada, Hong Kong and Malaysia may be viewed as being of minor importance. While Hong Kong has exported colour televisions to Canada for over 20 years, the annual volume of such exports has been negligible. The one exception to this was in 1984 when colour sets entering from Hong Kong rose abruptly to over 5,000 units. However, more recent trade figures suggest that the 1984 performance was a unique situation.(1) Further, annual world exports by Hong Kong's colour television industry have not exceeded 150,000 units(2) and the industry is evidently considerably smaller than the one in Canada. The colour television industry in Malaysia has also not been a significant competitive factor. Imports from that country have only recently commenced and all such imports are from one company only, the local subsidiary of a major Japanese producer. Malaysia, designated as a developing country, benefits as well from free entry under the BP tariff as far as colour televisions are concerned.

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(1) Import data for the first three months 1985 show virtually no colour televisions from Hong Kong.

(2) Based on latest trade data available.

The corresponding industry in Singapore, on the other hand, is much larger, with world exports totalling over one million units annually.[(1)] In that country, there are eight colour television manufacturers.[(2)] With one exception, all these companies are subsidiaries of either Japanese or European corporations. Despite its size, the industry in Singapore exports relatively little to Canada. Singapore's sales are primarily destined to the television markets in Europe and Asia. Canadian import data (see Table 1) do not indicate an upward trend in shipments from Singapore; imports from that country totalled some 36,000 sets in 1984, about the same level as that prevailing in 1976. With respect to Singapore it is important to point out that the withdrawal of the benefit conferred by the GPT rate on colour televisions has no bearing on the competitive position of Singapore producers in the Canadian market. Singapore can obtain free entry into Canada for its colour television sets under the BP tariff schedule. The same applies to importers and imports from Malaysia, as mentioned.

In contrast, the Korean television industry is rapidly expanding and heavily export-oriented. Over the period 1978-1984 Korea has accounted for 86 per cent of the growth in all GPT country imports into Canada. The names of the 16 companies comprising the Korean colour television industry are given below. They are:

Samsung Electronics Co.
GoldStar Co.
Daewoo Electronics Co.
Korea Electronics Co.
Taihan Electric Co., Inc.
Anan Electric Industrial Co., Ltd.
Bando Sangsa Company, Ltd.
Chunilsa Electronics Co. Ltd.

Crown Radio Corporation
Dong AH General Trading Co., Ltd.
Haita International Inc.
Hyosung Corporation
Hyun Dai Corporation
Korea Television Co., Ltd.
KSPC Limited
Kumho & Co. Inc.

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(1) Based on latest trade data available.
(2) The eight manufacturers are: Setron Pte Ltd.; Roxy(s) Pte Ltd.; European Standards Electronics Pte Ltd.; Hitachi(s) Pte Ltd.; Phillips(s) Pte Ltd.; United Electronics Engineering Corp. Pte Ltd.; Luxor(s) Pte Ltd.; and Mitsubishi Electric Corporation.

Four companies, Samsung, Goldstar, Daewoo, and Korea Electronics, dominate the Korean industry. These four firms account for virtually all of Korean colour television production and, in 1984, they supplied over 95 per cent of all colour sets imported into Canada from Korea. Each of these four companies is larger than the largest Canadian manufacturer in terms of the number of colour sets produced annually. Moreover, the two leading Korean producers, Samsung and Goldstar, each produce annually more colour television sets than total annual sales in the entire Canadian market. Samsung, in particular, is a very large and rapidly growing corporation with diverse international interests in electronics as well as in chemicals, industrial machinery, and textiles.(1) This company produced 2.4 million colour television sets in 1984 and, as well, with an annual output of 2 million sets, is the largest black and white television manufacturer in the world.(2) Samsung established a plant in 1984 in New Jersey to produce colour televisions in the U.S.A., where Goldstar also has a television manufacturing subsidiary, in Alabama. Samsung, Goldstar and Daewoo each have direct sales representation in Canada. In marked contrast to the counterpart industry in other GPT countries, the industry in Korea is autonomous, i.e., it is largely Korean owned and controlled.

Table 12 presents summary data on current production and exports by the Korean industry:

TABLE 12: COLOUR TELEVISION SETS: KOREAN PRODUCTION AND EXPORTS, BY QUANTITY AND VALUE, 1982-1984

	1982		1983		1984	
	000 Units	$US 000	000 Units	$US 000	000 Units	$US 000
Production	2,398	584,123	4,015	889,786	4,614	851,892
Exported	1,107	185,008	2,499	353,075	2,959	444,084
Sold domestically	1,288	361,593	1,514	464,613	1,715	425,976
Per Cent of Production Exported	46.2%	31.7%	62.2%	39.7%	64.1%	52.1%

Source: Statistics of Electronic & Electrical Industries, Electronic Industries Association of Korea. Minor statistical adjustments were made by the Tariff Board.

(1) Sales by the Samsung Group reached US $7.9 billion in 1983.

(2) As reported in Samsung Electronics Today, a publication of Samsung Electronics Co.

The Korean colour television industry produced fewer than 50,000 sets as recently as 1975. Rapid expansion increased output to 2.4 million units by 1982 and production nearly doubled to 4.6 million sets by 1984. Both the level and growth in output are, to a large extent, the result of burgeoning export sales, concentrated in the North American market. In 1984, 68.9 per cent of Korean exports went to the U.S.A., and 11.7 per cent were destined for Canada, making Canada Korea's second largest market. Moreover, Canada's percentage share of Korean exports rose in 1984 while the U.S. share declined.(2) Despite the size of the Korean industry, it does not export much to the large European market for colour televisions; sales to Europe represented only 2.8 per cent of Korea's world exports in 1984. The principal explanation for this is the technology(1) used in European sets.

Although this is not revealed in the Appendix tables, evidence brought before the Board indicates that Korean manufacturers did not make colour sets of the 26-inch screen size prior to 1984. The "19 inches & more" size category in Korean export data is thus believed to be composed entirely of 20-inch sets. According to the Board's survey of import documents, there are to date no exports to Canada of 26-inch sets. However, the two main Korean manufacturers, Samsung and Goldstar, have recenty commenced production of this larger, 26-inch screen size. It is anticipated that Korean manufacturers will in the near future seek to develop a market in Canada for the 26-inch colour set, a development which has already emerged regarding exports from Japan.

The success of the Korean industry in the Canadian market, where Korean exporters now have captured about 22 per cent of the market, rests in large part on the strengths of its manufacturing base. The Korean industry would appear to benefit greatly from the efficiencies resulting from large

(1) As opposed to sets in North America, European colour television sets employ a "dense grid" in assembling the video image; i.e., more colour points per square centimeter. This difference in standards means that extensive modifications would be required to convert from North American technology to that common in Europe.

(2) See also Appendix Tables 4 to 6.

scale operations. This industry, in contrast to its Canadian counterpart, is fully integrated, i.e. it produces all parts and components, which confers economies of scale and lower parts and components costs. Additionally, there is a distinct advantage in labour costs relative to other suppliers. These factors have allowed Korea to compete very effectively in the Canadian market not only with Canadian produced sets, but also against sets imported from MFN countries.

Price comparisons available to the Board lead to the conclusion that Korean manufactured sets compete in the domestic market on the basis of low prices. However, from the standpoint of non-price competition, Korean exporters appear to be at a disadvantage. For example, Korean suppliers have problems not affecting domestic manufacturers related to delivery schedules and ocean transport. Also, Korean manufacturers have to make special arrangements to provide warranty service and repairs. Another factor relates to the consumer assessment of the quality and reliability of the Korean product. While this may still on balance be negative, there is sufficient evidence indicating that Korean sets are fully comparable in quality and dependability in comparison with Canadian-made products.

A significant disadvantage for Korean-made colour sets is that they do not have the well known brand names under which most competing sets are sold. Brand names comprise a main factor in non-price competition, and colour television sets sold under nationally recognized names such as "Sony" or "Zenith", both imported products, enjoy a price premium and an established consumer acceptance. Canadian manufacturers, for the most part, also sell under their own brand names and these similarly have a national recognition resulting from an established market position. Where price is not the main determinant, Korean sets therefore compete at a disadvantage against better known brand names. The imported Korean product is sold, instead, under the private label or "store brand", of the Canadian distributor or merchandiser, for example, "Candle", "Pulsar" or "Citizen". Whereas, in the U.S. market, Korean companies have commenced to market under their own names, this has as yet not occurred to any appreciable extent in Canada.

Korean colour sets are almost exclusively sold through mass merchandisers, especially the major departments stores such as Sears Canada Inc., Hudson's Bay Company, and the T.E. Eaton Company, and other large merchandisers such as Canadian Tire Corporation, K-Mart Ltd., and Consumers Distributing Ltd. Korean competition is presumably intense for the private label accounts of these large merchandisers and, accordingly, the main pressure from Korean competition is on those Canadian producers which market a large proportion of their production through the private label market.

XI. SUMMARY AND CONCLUSIONS

In the period subsequent to the Board's previous inquiry and report, a number of developments have taken place which have had an adverse impact on the position of Canadian colour television manufacturers within the domestic market. Over the 1982-1984 period, import competition has intensified, with imported colour sets in 1984 accounting for 57.1 per cent of the market compared to 44.2 per cent in 1982. This import penetration has been entirely due to colour sets entered from GPT countries; in contrast, the market share held by non-GPT suppliers, mainly the U.S.A. and Japan, has declined. Thus, over 1982-1984 the share of the market held by GPT-country imports has risen from 7.4 per cent to 25.8 per cent; commensurate with this marked increase has been a fall-off in market share held by Canadian manufacturers, from 55.8 per cent in 1982 to 42.9 per cent in 1984 but with some indication of recovery in the first quarter of 1985. It is noted, further, that almost all of the growth in GPT import penetration is due to rapidly expanding imports from one GPT country, Korea.

Over this period there has been a significant surge in overall consumer demand, which has served to buoy up sales by Canadian producers despite their loss in market share. In fact, industry shipments including exports totalled 696,000 sets in 1984 compared to 543,000 in 1982 and employment rose by some 10 per cent. This gain occurred after a period of virtually no growth over the previous decade. However, while sales and employment have risen, there has been a decline in industry profitability and in utilisation of plant capacity.

This loss of market share and decline in profitability in the face of rising sales causes the Board serious concern for the future viability of the domestic industry. In the Board's opinion colour sets manufactured by Korea and other GPT exporters compete directly on the basis of low prices, and this form of competition has put both prices and profit margins in Canada under pressure. The Board notes that, after about a decade of essentially unchanged demand, it is only in the last two years that an upsurge in domestic sales has occurred which may in large part relate to the replacement cycle for colour sets. A fall-off in sales in Canada, in the light of reduced market shares already in evidence, would, in all probability, result in a significant decline in production and employment by Canadian producers.

The domestic colour television market appears to be quite segmented, principally according to screen size but also by design and model features. At present three screen sizes, 14-inch, 20-inch and 26-inch, comprise over 90 per cent of this market. To date, GPT import competition has only been a factor in the two smaller screen sizes since GPT countries have not exported the 26-inch set size to Canada. Nonetheless, the Board deems it highly likely that Korean manufacturers would in the near future become vigourous competitors in the market for larger screen sizes, since the two largest Korean television manufacturers have recently commenced production of 26-inch models. Ocean transport costs are evidently no longer a limiting consideration; Japan in the last two years has already begin to export 26-inch and 28-inch sets to Canada. In view of the obvious success achieved by GPT exporters in the Canadian market for smaller size sets, the Board feels that import competition, particularly from Korea, poses a clear potential threat to the market for larger sets with screen sizes over 20 inches. This is of particular concern to the Board because production of 26-inch sets at present accounts for the preponderance of the profitability and viability of the Canadian industry.

Further, among GPT status countries, the Board was struck both by the scale of Korean colour television industry and its rapid expansion. At present the Korean industry produces 4.6 million colour sets annually which is

close to seven times the shipments of the Canadian industry. Two individual Korean companies each have a production capacity exceeding by far the total market demand in Canada. In addition, while the Canadian industry is engaged in final assembly only, manufacturers in Korea are fully integrated producers making the final product together with all of its parts and components. In the Board's opinion, the Korean colour television industry must be seen as a fully established, enjoying the advantages of low-cost production and obviously capable of competing in the world market. This consideration weighed heavily with the Board in its deliberations and final recommendations since, for the foreseeable future, the Korean industry will very likely constitute a permanent competitive factor confronting Canadian manufacturers.

As in its previous 1982 report, the Board's present inquiry has centered primarily on the strengths of the Korean colour television industry and rapidly increasing imports from that country. However, in the Board's opinion similar circumstances could emerge quite quickly with respect to the other GPT status countries given that television plants designed for mass production and world markets could be easily sited by multi-national firms in several other developing countries. The Board sees no reason to depart from its earlier position that the withdrawal of the GPT rate should pertain broadly to all countries granted a GPT status, as opposed to a measure which would specifically apply to Korea alone.

On September 3, 1985, the Deputy Minister of National Revenue for Customs and Excise initiated an investigation into the dumping of colour television sets from Korea, stating he was of the opinion that there is evidence that the goods in question "have been or are being, dumped". Therefore, it is possible that, in the recent few years, dumping has in part been responsible for the low prices prevailing for Korean-made colour television sets. The full extent, however, of the impact of Korean export pricing policy is not at issue here. The Board is required, rather, to determine whether reinstatement of the GPT rate of Free is likely to cause injury to Canadian producers if the current withdrawal expires on December 31, 1985. It is noted that the goods covered by the current dumping inquiry do not encompass 26-inch

colour television sets. Therefore, any anti-dumping measures which might be implemented would not affect the market for 26-inch colour sets whereas it is this market segment which carries the domestic industry as a whole.

For these several reasons the Board finds that the reinstatement of the GPT schedule for colour television sets would have an adverse impact on prices, profitability and market share parallel to that experienced since 1982. The Board, therefore, concludes that the reinstatement of the GPT schedule for colour television receiving sets would likely cause injury to Canadian producers. It is also the Board's view that the withdrawal of the GPT rate should be a permanent one in that a much longer term resolution of the tariff schedule for colour television receiving sets is required, which would serve to assist the stabilization of the domestic industry. This might also encourage the Canadian industry, and suppliers to it, to consider the production in Canada of more parts and components used in the manufacture of colour television receiving sets.

XII. RECOMMENDATION

Accordingly, the Board recommends that the GPT schedule not be reinstated for colour television receiving sets under tariff items 44533-1, 44533-4 and 44533-5.

J.P. Bertrand
First Vice-Chairman

G.J. Gorman, Q.C.
Second Vice-Chairman

A.C. Kilbank
Member

K.C. Martin
Member

R.K. Matthie
Member

C.N. Beauchamp
Member

September 23, 1985

APPENDIX TABLES

APPENDIX TABLE 1: COLOUR TELEVISION SETS: IMPORTS OF SETS, COMBINATIONS AND KITS UNDER TARIFF ITEMS 44533-1, 44533-4 AND 44533-5, BY SIZE AND COUNTRY OF ORIGIN, BY UNITS, 1977-1985[(a)]

	1977	1978	1979	1980	1981	1982	1983	1984	1st Half 1985	1st Half 1984
	- '000 units -									
Colour T.V. Sets, Under 10 Inches:										
Korea	-	-	-	-	-	-	-	2.6	1.3	2.6
Singapore	-	-	-	-	-	-	-	-	0.2	-
Hong Kong	-	-	-	-	-	*	*	-	-	-
Other GPT	-	-	-	-	-	-	-	-	-	-
Total GPT	-	-	-	-	-	*	*	2.6	1.5	2.6
Japan	1.7	1.4	1.4	7.4	9.5	4.0	3.0	5.2	2.3	2.4
Taiwan	-	*	1.5	0.5	5.9	0.5	7.5	8.7	2.7	3.8
USA	*	*	0.1	0.6	1.6	0.5	0.2	0.6	0.1	0.6
Other Non-GPT	-	-	-	-	-	-	-	-	-	-
Total Non-GPT	1.7	1.4	3.0	8.6	17.1	5.0	10.7	14.5	5.1	6.8
Total: Under 10 Inches	1.7	1.4	3.0	8.6	17.1	5.0	10.7	17.1	6.7	9.3
Colour T.V. Sets, 10 to 18 Inches:										
Korea	0.3	3.3	34.4	31.0	40.3	23.9	83.7	157.8	42.8	67.0
Singapore	8.0	6.9	15.5	6.4	25.5	21.0	42.1	31.7	15.6	19.1
Hong Kong	-	-	*	*	*	*	1.0	3.2	-	2.0
Other GPT	-	-	-	-	-	-	4.5	10.2	5.0	4.5
Total GPT	8.3	10.2	50.0	37.3	65.7	44.9	131.2	202.9	63.4	92.6
Japan	141.9	77.3	59.7	46.8	60.9	56.8	88.5	85.4	26.5	44.1
Taiwan	2.5	17.8	19.0	17.2	16.4	1.4	7.1	15.2	3.0	5.8
USA	10.2	32.2	45.8	27.4	29.8	23.2	18.2	13.1	3.3	6.5
Other Non-GPT	*	-	-	*	*	*	-	*	0.2	*
Total Non-GPT	154.7	127.3	124.5	91.4	107.1	81.5	113.7	113.7	33.1	56.4
Total: 10 to 18 Inches	162.9	137.5	174.5	128.7	172.9	126.4	245.0	316.6	96.5	149.0

APPENDIX TABLE 1 (Cont.)

	1977	1978	1979	1980	1981	1982	1983	1984	1st Half 1985	1st Half 1984
	- '000 units -									
Colour T.V. Sets, 19 Inches:										
Korea	.1.0	0.5	4.6	*	1.5	1.1	*	4.1	1.0	*
Singapore	-	-	-	-	-	-	-	0.6	1.4	-
Hong Kong	-	-	-	-	*	*	*	*	*	*
Other GPT	-	-	-	-	*	-	-	-	-	-
Total GPT	1.0	0.5	4.6	*	1.5	1.1	*	4.6	2.3	*
Japan	17.8	14.6	2.5	2.6	10.4	8.8	3.9	5.2	1.2	2.4
Taiwan	-	1.1	*	-	-	*	*	*	-	*
USA	7.9	63.0	70.3	49.2	27.2	22.8	35.5	23.7	11.2	13.2
Other Non-GPT	-	-	-	-	-	*	*	-	*	-
Total Non-GPT	25.7	78.6	72.8	51.8	37.5	31.6	39.4	28.8	12.4	15.6
Total: 19 Inches	26.7	79.1	77.4	51.8	39.0	32.7	39.4	33.5	14.7	15.6
Colour T.V. Sets, Over 19 Inches:										
Korea	*	5.1	35.6	17.6	13.0	16.2	58.7	143.7	52.3	78.5
Singapore	25.4	30.2	26.2	11.1	3.5	*	*	3.6	1.0	*
Hong Kong	-	-	-	-	*	*	*	2.1	*	0.3
Other GPT	-	-	-	*	*	-	-	-	-	-
Total GPT	25.4	35.3	61.8	28.7	16.5	16.3	58.8	149.4	53.3	78.8
Japan	188.1	132.2	68.2	30.8	38.7	60.7	113.6	93.1	42.4	51.8
Taiwan	-	6.4	29.0	27.4	4.8	-	13.7	30.7	2.7	15.3
USA	120.6	195.1	153.8	149.2	122.6	112.8	134.9	148.8	62.7	73.5
Other Non-GPT	*	*	*	*	*	*	*	0.2	0.3	*
Total Non-GPT	308.7	333.7	251.1	207.4	166.2	173.5	262.3	272.8	107.9	140.6
Total: Over 19 Inches	334.1	369.0	312.9	236.1	182.7	189.8	321.0	422.2	161.3	219.4

APPENDIX TABLE 1 (Cont.)

	1977	1978	1979	1980	1981	1982	1983	1984	1st Half 1985	1st Half 1984
	- '000 units -									
Colour T.V. Sets, Total All Sizes:										
Korea	1.3	8.9	74.6	48.6	54.8	41.2	142.4	308.1	97.4	148.0
Singapore	33.4	37.1	41.7	17.5	29.0	21.1	42.1	35.9	18.2	19.2
Hong Kong	-	-	*	*	*	*	1.0	5.3	*	2.4
Other GPT	-	-	-	*	*	-	4.5	10.2	5.0	4.5
Total GPT	34.7	46.0	116.3	66.1	83.7	62.3	190.0	359.5	120.6	174.1
Japan	349.5	225.5	131.8	87.6	119.5	130.3	208.9	188.9	72.4	100.8
Taiwan	2.5	25.3	49.4	45.1	27.2	1.9	28.3	54.6	8.4	24.9
USA	138.7	290.3	270.0	226.4	181.2	159.4	188.8	186.1	77.2	93.7
Other Non-GPT	*	*	*	*	*	*	*	0.2	0.5	*
Total Non-GPT	490.8	541.0	451.4	359.2	327.9	291.6	426.1	429.9	158.5	219.4
Total: All Sizes	525.4	587.0	567.8	425.2	411.6	353.9	616.1	789.4	279.1	393.4
Combinations, Under 19 Inches:										
Korea	-	-	-	0.4	1.9	*	*	*	-	*
Singapore	1.9	-	*	-	-	-	-	-	-	-
Hong Kong	-	-	-	-	-	0.5	0.7	-	-	-
Other GPT	-	-	-	-	-	-	-	-	0.3	-
Total GPT	1.9	-	*	0.4	1.9	0.5	0.7	*	0.3	*
Japan	1.2	0.4	1.1	1.3	3.4	3.2	2.1	0.9	0.7	0.5
Taiwan	-	-	0.2	*	1.0	0.1	*	-	2.0	-
USA	0.2	2.2	3.2	3.0	1.1	0.8	0.1	0.1	*	*
Other Non-GPT	-	-	-	-	-	-	-	-	-	-
Total Non-GPT	1.4	2.6	4.5	4.3	5.3	4.1	2.3	1.0	2.8	0.5
Total: Under 19 Inches	3.3	2.6	4.4	4.7	7.1	4.6	2.9	1.0	3.0	0.5

APPENDIX TABLE 1 (Cont.)

	1977	1978	1979	1980	1981	1982	1983	1984	1st Half 1985	1st Half 1984
					- '000 units -					
Combinations, 19 Inches:										
Korea	-	-	-	-	-	-	-	-	-	-
Singapore	-	-	-	-	-	-	-	-	-	-
Hong Kong	-	-	-	-	-	-	-	-	-	-
Other GPT	-	-	-	-	-	-	-	-	-	-
Total GPT	-	-	-	-	-	-	-	-	-	-
Japan	*	*	*	*	*	*	*	*	0.1	-
Taiwan	-	*	*	*	-	-	-	-	-	-
USA	0.5	0.1	0.2	0.8	0.3	0.1	0.1	*	*	*
Other Non-GPT	-	-	-	-	-	*	-	-	-	-
Total Non-GPT	0.5	0.1	0.2	0.8	0.3	0.1	0.2	0.1	0.1	*
Total: 19 Inches	0.5	0.1	0.2	0.8	0.3	0.1	0.2	0.1	0.1	*
Combinations, Over 19 Inches:										
Korea	-	-	-	-	-	*	*	0.4	1.0	-
Singapore	-	*	1.8	0.1	*	-	*	-	-	-
Hong Kong	*	-	-	*	-	*	*	*	*	*
Other GPT	-	-	-	-	-	-	*	*	-	*
Total GPT	*	*	1.8	0.1	*	*	*	0.4	1.0	*
Japan	2.5	0.2	*	0.1	*	*	0.3	4.2	0.7	0.9
Taiwan	-	-	0.3	1.2	0.7	-	-	2.5	*	1.0
USA	4.6	7.5	13.3	18.7	8.3	2.9	0.4	0.2	0.1	0.2
Other Non-GPT	-	-	-	*	-	*	*	*	0.1	*
Total Non-GPT	7.0	7.7	13.6	20.0	9.0	2.9	0.7	6.9	1.0	2.1
Total: Over 19 Inches	7.1	7.8	15.4	20.1	9.0	2.9	0.7	7.3	2.0	2.1

APPENDIX TABLE 1 (Cont.)

	1977	1978	1979	1980	1981	1982	1983	1984	1st Half 1985	1st Half 1984
	- '000 units -									
Combinations: Total										
All Sizes:										
Korea	-	-	-	0.4	1.9	*	*	0.4	1.0	*
Singapore	1.9	*	1.8	0.1	*	-	*	-	-	-
Hong Kong	*	-	-	*	-	0.5	0.7	*	*	*
Other GPT	-	-	-	-	-	-	*	*	0.3	*
Total GPT	1.9	*	1.8	0.5	1.9	0.5	0.7	0.4	1.3	*
Japan	3.7	0.6	1.1	1.4	3.2	3.2	2.4	5.1	1.5	1.5
Taiwan	-	*	0.5	1.2	1.7	0.1	*	2.5	2.0	1.0
USA	5.3	9.8	16.7	22.5	9.7	3.7	0.6	0.4	0.1	0.2
Other Non-GPT	-	-	-	*	-	*	*	*	0.1	*
Total Non-GPT	8.9	10.4	18.3	25.1	14.6	7.1	3.1	7.9	3.8	2.7
Total: All Sizes	10.9	10.5	20.0	25.6	16.4	7.6	3.8	8.3	5.1	2.7
Kits, Under 19 Inches										
Korea	-	-	-	0.3	-	*	-	-	0.6	-
Singapore	-	-	*	-	-	-	-	-	-	-
Hong Kong	-	-	-	-	-	-	-	-	1.6	-
Other GPT	-	-	-	-	*	-	-	-	-	-
Total GPT	-	-	*	0.3	*	*	-	-	2.2	-
Japan	1.0	*	0.9	1.0	0.1	5.0	16.4	*	-	*
Taiwan	-	-	-	*	-	-	-	-	*	-
USA	-	*	0.5	0.1	*	*	*	-	*	-
Other Non-GPT	-	-	-	-	-	-	*	-	-	-
Total Non-GPT	1.0	*	1.4	1.1	0.1	5.1	16.5	*	*	*
Total: Under 19 Inches	1.0	*	1.4	1.5	0.1	5.1	16.5	*	2.3	*

APPENDIX TABLE 1 (Cont.)

	1977	1978	1979	1980	1981	1982	1983	1984	1st Half 1985	1st Half 1984
	- '000 units -									
Kits, 19 Inches:										
Korea	-	-	-	-	-	*	-	-	-	-
Singapore	-	-	-	-	-	-	-	-	-	-
Hong Kong	-	-	-	-	*	-	-	-	-	-
Other GPT	-	-	*	-	-	-	-	-	-	-
Total GPT	-	-	*	-	*	*	-	-	-	-
Japan	*	*	*	*	*	-	*	*	*	*
Taiwan	-	-	-	-	-	-	-	-	-	-
USA	*	0.2	1.4	*	*	*	*	*	0.1	*
Other Non-GPT	-	-	-	-	*	-	-	-	-	-
Total Non-GPT	*	0.2	1.4	*	*	*	*	*	0.1	*
Total: 19 Inches	*	0.2	1.4	*	*	*	*	*	0.1	*
Kits, Over 19 Inches:										
Korea	-	-	-	*	0.3	-	*	-	-	-
Singapore	*	*	-	*	-	-	-	-	-	-
Hong Kong	-	-	-	-	-	-	-	-	-	-
Other GPT	-	-	-	-	*	-	-	-	-	-
Total GPT	*	*	-	*	0.3	-	*	-	-	-
Japan	9.7	1.3	1.7	2.1	23.0	10.4	14.7	*	*	*
Taiwan	-	-	-	0.2	-	*	*	-	-	-
USA	0.3	1.2	4.4	0.9	0.1	0.3	0.2	0.2	0.1	0.1
Other Non-GPT	-	-	*	0.7	*	-	*	*	-	-
Total Non-GPT	9.9	2.5	6.1	3.8	23.2	10.7	15.0	0.2	0.2	0.1
Total: Over 19 Inches	9.9	2.5	6.1	3.8	23.5	10.7	15.0	0.2	0.2	0.1

APPENDIX TABLE 1 (Concl.)

	1977	1978	1979	1980	1981	1982	1983	1984	1st Half 1985	1st Half 1984
					- '000 units -					
Kits, Total:										
All Sizes										
Korea	-	-	-	0.3	0.3	*	*	-	0.6	-
Singapore	*	*	*	*	-	-	-	-	-	-
Hong Kong	-	-	-	-	*	-	-	-	1.6	-
Other GPT	-	-	*	-	*	-	-	-	-	-
Total GPT	*	*	*	0.3	0.3	*	*	-	2.2	-
Japan	10.7	1.4	2.6	3.1	23.1	15.4	31.2	*	*	*
Taiwan	-	-	-	0.2	-	*	*	-	*	-
USA	0.3	1.3	6.2	1.0	0.2	0.4	0.3	0.2	0.2	0.1
Other Non-GPT	-	-	*	0.7	*	-	*	*	-	-
Total Non-GPT	10.9	2.7	8.8	5.0	23.3	15.8	31.5	0.2	0.3	0.1
Total: All Sizes	10.9	2.7	8.8	5.3	23.7	15.8	31.5	0.2	2.5	0.1
Total: Sets,										
Combinations & Kits:										
Korea	1.3	8.8	74.6	49.3	57.0	41.3	142.5	308.5	99.0	148.0
Singapore	35.3	37.2	43.5	17.6	29.0	21.1	42.1	35.9	18.2	19.2
Hong Kong	*	-	*	*	*	0.5	1.7	5.3	1.6	2.4
Other GPT	-	-	*	*	*	-	4.5	10.2	5.3	4.5
Total GPT	36.6	46.0	118.1	66.9	85.9	62.8	190.7	359.9	124.1	174.1
Japan	363.8	227.4	135.7	92.1	145.9	148.9	242.6	194.0	74.0	102.2
Taiwan	2.5	25.3	50.0	46.6	28.9	2.1	28.4	57.1	10.4	25.9
USA	144.2	301.5	292.8	249.6	191.0	163.5	189.7	186.7	77.6	94.0
Other Non-GPT	*	*	*	0.7	*	*	*	0.2	0.7	*
Total Non-GPT	510.6	554.2	478.4	389.2	365.8	314.5	460.7	438.1	162.6	222.1
Total: All sizes	547.1	600.2	596.6	456.1	451.7	377.3	651.4	797.9	286.7	396.2
Residual(b)	1.5	0.3	0.1	1.2	0.2	0.4	*	1.2	*	0.4
Total - All Items	548.6	600.5	596.6	457.3	451.9	377.7	651.4	799.1	286.7	396.6

Notes: Totals may not add due to rounding.
* Indicates fewer than 50 units.
(a) Tariff item 44533-4 was introduced as of January 1, 1980 and tariff item 44533-5 was introduced as of January 1, 1985. All data from 1981 to 1985, are from Tariff Board import document study.
(b) The residual shown includes imports as reported under other than the three relevant tariff items. The resulting total is for all tariff items under commodity classes 637-11, 637-13 and 637-14.

Source: Statistics Canada and Tariff Board.

APPENDIX TABLE 2: COLOUR TELEVISION SETS: VALUE OF IMPORTS OF SETS, COMBINATIONS AND KITS UNDER TARIFF ITEMS 44533-1, 44533-4 AND 44533-5, BY SIZE AND COUNTRY OF ORIGIN, 1977 TO 1985(a)

	1977	1978	1979	1980	1981
			- $ 000 -		
Colour T.V. Sets, Under 10 Inches:					
Korea	-	-	-	-	-
Singapore	-	-	-	-	-
Hong Kong	-	-	-	-	-
Other GPT	-	-	-	-	-
Total GPT	-	-	-	-	-
Japan	414.9	416.2	371.7	1,782.7	2,272.6
Taiwan	-	1.0	265.6	138.8	1,393.7
U.S.A.	1.4	3.9	26.9	144.3	467.4
Other Non-GPT	-	-	-	-	-
Total Non-GPT	416.3	421.2	664.2	2,065.8	4,133.7
Total: Under 10 Inches	416.3	421.2	664.2	2,065.8	4,133.7
Colour T.V. Sets, 10 to 18 Inches:					
Korea	12.6	576.9	6,393.5	5,989.9	6,843.1
Singapore	1,562.7	1,445.7	3,876.7	1,377.4	5,602.2
Hong Kong	-	-	0.5	1.1	0.4
Other GPT	-	-	-	-	-
Total GPT	1,575.3	2,022.6	10,270.7	7,368.4	12,445.7
Japan	30,204.7	19,458.0	14,151.9	10,253.6	13,883.8
Taiwan	592.4	4,432.3	3,801.4	3,635.1	3,680.5
U.S.A.	2,792.0	8,469.2	13,463.6	7,682.9	8,025.6
Other Non-GPT	*	-	-	1.6	0.8
Total Non-GPT	33,589.4	32,359.4	31,416.9	21,573.2	25,590.6
Total: 10 to 18 Inches	35,164.7	34,382.0	41,687.6	28,941.6	38,036.3

APPENDIX TABLE 2 (Cont.)

	1982	1983	1984	1st Half 1985	1st Half 1984
			- $ 000 -		
Colour T.V. Sets, Under 10 Inches:					
Korea	-	-	465.4	250.4	465.4
Singapore	-	-	-	67.0	-
Hong Kong	0.3	0.4	-	-	-
Other GPT	-	-	-	-	-
Total GPT	0.3	0.4	465.4	317.4	465.4
Japan	893.0	674.6	1,276.7	639.3	578.0
Taiwan	122.2	1,467.8	1,590.6	485.7	592.7
U.S.A.	166.8	47.3	169.6	25.9	165.5
Other Non-GPT	-	-	-	-	-
Total Non-GPT	1,181.9	2,189.8	3,036.9	1,150.8	1,336.2
Total: Under 10 Inches	1,182.2	2,190.2	3,502.3	1,468.2	1,801.6
Colour T.V. Sets, 10 to 18 Inches:					
Korea	4,688.6	14,090.9	27,195.9	7,469.7	5,981.4
Singapore	6,444.5	9,013.7	7,194.1	3,288.1	335.4
Hong Kong	0.5	169.4	554.8	-	338.2
Other GPT	-	882.7	1,881.9	973.3	900.9
Total GPT	11,133.5	24,156.6	36,826.7	11,731.0	7,555.9
Japan	13,115.8	19,297.1	18,635.0	5,636.9	9,685.0
Taiwan	277.3	1,262.2	2,886.6	748.7	1,042.5
U.S.A.	6,973.5	5,530.1	3,725.1	875.0	1,950.8
Other Non-GPT	0.3	-	2.1	78.9	2.0
Total Non-GPT	20,366.9	26,089.4	25,248.9	7,339.5	12,680.3
Total: 10 to 18 Inches	31,500.5	50,246.0	62,075.6	19,070.5	20,236.2

APPENDIX TABLE 2 (Cont.)

	1977	1978	1979	1980	1981
			- $ 000 -		
Colour T.V. Sets, 19 Inches:					
Korea	201.4	98.8	1,022.3	1.3	333.9
Singapore	-	-	-	-	-
Hong Kong	-	-	-	-	0.8
Other GPT	-	-	-	-	0.2
Total GPT	201.4	98.8	1,022.3	1.3	334.9
Japan	6,396.0	5,461.4	880.0	879.6	3,745.3
Taiwan	-	273.5	0.5	-	-
U.S.A.	2,158.9	20,467.8	24,999.3	18,787.2	11,561.2
Other Non-GPT	-	-	-	-	-
Total Non-GPT	8,554.9	26,202.8	25,879.9	19,666.8	15,306.5
Total: 19 Inches	8,756.3	26,301.5	26,902.2	19,668.1	15,641.4
Colour T.V. Sets, Over 19 Inches:					
Korea	1.2	1,062.3	7,769.3	4,205.8	3,195.6
Singapore	5,687.2	8,102.6	7,765.3	2,440.5	763.4
Hong Kong	-	-	-	-	0.6
Other GPT	-	-	-	0.9	2.9
Total GPT	5,688.4	9,164.9	15,534.6	6,647.1	3,962.4
Japan	49,205.8	41,674.2	21,182.1	8,547.3	12,642.0
Taiwan	-	1,861.5	7,946.9	8,760.6	1,609.1
U.S.A.	47,538.3	88,376.0	70,560.1	65,768.1	64,278.7
Other Non-GPT	1.7	3.3	12.1	0.9	10.0
Total Non-GPT	96,745.8	131,914.9	99,701.1	83,076.9	78,539.8
Total: Over 19 Inches	102,434.2	141,079.8	115,235.8	89,724.0	82,502.2

APPENDIX TABLE 2 (Cont.)

	1982	1983	1984	1st Half 1985	1st Half 1984
			- $ 000 -		
Colour T.V. Sets, 19 Inches:					
Korea	244.5	7.8	834.6	208.1	0.5
Singapore	-	-	158.2	261.8	-
Hong Kong	0.5	0.4	2.4	0.5	2.4
Other GPT	-	-	-	-	-
Total GPT	245.1	8.2	995.2	470.4	2.9
Japan	3,183.6	1,382.0	1,893.3	538.8	959.9
Taiwan	2.5	8.4	3.5	-	3.5
U.S.A.	12,668.6	17,512.4	11,522.9	4,065.8	5,955.9
Other Non-GPT	0.6	0.2	-	0.1	-
Total Non-GPT	15,855.3	18,903.0	13,419.6	4,604.8	6,919.3
Total: 19 Inches	16,100.3	18,911.2	14,414.8	5,075.2	6,922.2
Colour T.V. Sets, Over 19 Inches:					
Korea	3,797.2	12,881.3	32,085.5	10,928.9	16,929.0
Singapore	14.4	0.6	926.5	259.7	1.0
Hong Kong	0.3	5.4	608.5	1.1	83.3
Other GPT	-	-	-	-	-
Total GPT	3,811.9	12,887.3	33,620.5	11,189.7	17,013.3
Japan	19,388.9	35,278.8	32,031.1	15,653.1	17,732.8
Taiwan	-	3,266.6	7,182.5	738.3	3,580.3
U.S.A.	59,889.4	63,868.5	66,176.7	27,841.7	32,153.2
Other Non-GPT	2.2	1.1	119.8	129.3	0.8
Total Non-GPT	79,280.5	102,415.0	105,510.0	44,362.4	53,467.0
Total: Over 19 Inches	83,092.4	115,302.3	139,130.5	55,552.1	70,480.3

APPENDIX TABLE 2 (Cont.)

	1977	1978	1979	1980	1981
			- $ 000 -		
Colour T.V. Sets, Total: All Sizes:					
Korea	215.2	1,738.0	15,185.1	10,197.0	10,372.5
Singapore	7,249.9	9,548.3	11,642.0	3,817.9	6,365.6
Hong Kong	-	-	0.5	1.1	1.8
Other GPT	-	-	-	0.9	3.1
Total GPT	7,465.1	11,286.3	26,827.6	14,016.8	16,743.0
Japan	86,221.4	67,009.8	36,585.7	21,463.2	32,543.7
Taiwan	592.4	6,568.3	12,014.4	12,534.5	6,683.2
U.S.A.	52,490.6	117,316.9	109,049.9	92,382.5	84,332.9
Other Non-GPT	1.7	3.3	12.1	2.5	10.8
Total Non-GPT	139,306.4	190.898.3	157,662.1	126,382.7	123,570.6
Total: All Sizes	146,771.5	202,184.5	184,489.7	140,399.5	140,313.6
Combinations, Under 19 Inches:					
Korea	-	-	-	49.6	414.4
Singapore	106.2	-	0.6	-	-
Hong Kong	-	-	-	-	-
Other GPT	-	-	-	-	-
Total GPT	106.2	-	0.6	49.6	414.4
Japan	242.2	105.6	309.4	313.9	715.7
Taiwan	-	-	36.2	0.6	253.1
U.S.A.	22.4	632.9	963.2	925.4	326.7
Other Non-GPT	-	-	-	-	-
Total Non-GPT	264.6	738.5	1,308.8	1,239.9	1,295.5
Total: Under 19 Inches	370.8	738.5	1,309.3	1,289.5	1,709.9

APPENDIX TABLE 2 (Cont.)

	1982	1983	1984	1st Half 1985	1st Half 1984
			- $ 000 -		
Colour T.V. Sets, Total: All Sizes:					
Korea	8,730.3	26,980.0	60,581.4	18,857.1	23,376.3
Singapore	6,458.8	9,014.2	8,278.7	3,876.6	336.4
Hong Kong	1.6	175.5	1,165.8	1.6	423.9
Other GPT	-	882.7	1,881.9	973.3	900.9
Total GPT	15,190.8	37,052.5	71,907.9	23,708.5	25,037.5
Japan	36,581.3	56,632.5	53,836.1	22,468.1	28,955.7
Taiwan	401.9	6,005.0	11,663.1	1,972.6	5,219.0
U.S.A.	79,698.4	86,958.3	81,594.3	32,808.4	40,225.3
Other Non-GPT	3.1	1.3	121.9	208.4	2.8
Total Non-GPT	116,684.7	149,597.2	147,215.4	57,457.6	74,402.8
Total: All Sizes	131,875.4	186,649.6	219,123.3	81,166.1	99,440.3
Combinations, Under 19 Inches:					
Korea	0.5	0.5	0.3	-	0.3
Singapore	-	-	-	-	-
Hong Kong	97.8	118.8	-	-	-
Other GPT	-	-	-	73.1	-
Total GPT	98.3	119.3	0.3	73.1	0.3
Japan	575.1	431.1	176.7	199.5	100.7
Taiwan	21.9	9.7	-	261.9	-
U.S.A.	227.7	30.3	24.5	10.4	6.8
Other Non-GPT	-	-	-	-	-
Total Non-GPT	824.8	471.1	201.3	471.8	107.5
Total: Under 19 Inches	923.1	590.3	201.6	544.9	107.8

APPENDIX TABLE 2 (Cont.)

	1977	1978	1979	1980	1981
			- $ 000 -		
Combinations, 19 Inches:					
Korea	-	-	-	-	-
Singapore	-	-	-	-	-
Hong Kong	-	-	-	-	-
Other GPT	-	-	-	-	-
Total GPT	-	-	-	-	-
Japan	0.8	*	1.1	13.3	3.4
Taiwan	-	0.6	1.0	0.9	-
U.S.A.	43.9	39.8	81.8	311.7	172.0
Other Non-GPT	-	-	-	-	-
Total Non-GPT	44.6	40.8	83.9	325.9	175.4
Total: 19 Inches	44.6	40.8	83.9	325.9	175.4
Combinations, Over 19 Inches:					
Korea	-	-	-	-	3.3
Singapore	-	14.8	589.8	30.6	-
Hong Kong	2.3	-	-	1.1	-
Other GPT	-	-	-	-	-
Total GPT	2.3	14.8	589.8	31.7	3.3
Japan	662.0	72.6	10.0	35.0	11.4
Taiwan	-	-	96.8	419.9	237.5
U.S.A.	2,096.1	3,521.0	6,579.4	10,673.5	5,018.7
Other Non-GPT	-	-	-	1.0	-
Total Non-GPT	2,758.1	3,593.6	6,686.2	11,129.4	5,267.7
Total: Over 19 Inches	2,760.3	3,608.4	7,276.0	11,161.1	5,271.0

APPENDIX TABLE 2 (Cont.)

	1982	1983	1984	1st Half 1985	1st Half 1984
			- $ 000 -		
Combinations, 19 Inches:					
Korea	-	-	-	-	-
Singapore	-	-	-	-	-
Hong Kong	-	-	-	-	-
Other GPT	-	-	-	-	-
Total GPT	-	-	-	-	-
Japan	11.7	12.3	20.0	23.4	-
Taiwan	-	-	-	-	-
U.S.A.	29.7	54.5	16.1	5.1	6.5
Other Non-GPT	3.4	-	-	-	-
Total Non-GPT	44.8	66.8	36.1	28.5	6.5
Total: 19 Inches	44.8	66.8	36.1	28.5	6.5
Combinations, Over 19 Inches:					
Korea	0.5	0.2	76.5	266.4	-
Singapore	-	0.4	-	-	-
Hong Kong	1.2	2.1	1.9	6.4	1.0
Other GPT	-	0.5	1.0	-	1.0
Total GPT	1.7	3.2	79.3	272.8	2.0
Japan	1.5	130.6	1,361.1	343.5	327.8
Taiwan	-	-	668.1	4.3	266.2
U.S.A.	1,496.3	237.0	152.2	49.7	111.1
Other Non-GPT	2.2	5.1	1.8	73.6	1.8
Total Non-GPT	1,500.1	372.7	2,183.2	471.1	707.0
Total: Over 19 Inches	1,501.8	375.9	2,262.5	743.9	708.9

APPENDIX TABLE 2 (Cont.)

	1977	1978	1979	1980	1981
			- $ 000 -		
Combinations: Total: All Sizes					
Korea	-	-	-	49.6	417.7
Singapore	106.2	14.8	590.4	30.6	-
Hong Kong	2.3	-	-	1.1	-
Other GPT	-	-	-	-	-
Total GPT	108.5	14.8	590.4	81.3	417.7
Japan	905.0	178.2	320.5	362.2	730.5
Taiwan	-	0.6	134.0	421.4	490.6
U.S.A.	2,162.4	4,193.7	7,624.4	11,910.6	5,517.4
Other Non-GPT	-	-	-	1.0	-
Total Non-GPT	3,067.3	4,372.9	8,078.9	12,695.2	6,738.5
Total: All Sizes	3,175.7	4,387.7	8,669.2	12,776.5	7,156.3
Kits, Under 19 Inches:					
Korea	-	-	-	69.5	-
Singapore	-	-	*	-	-
Hong Kong	-	-	-	-	-
Other GPT	-	-	-	-	1.1
Total GPT	-	-	*	69.5	1.1
Japan	140.1	*	187.4	207.0	24.9
Taiwan	-	-	-	*	-
U.S.A.	-	0.7	128.3	45.1	5.8
Other Non-GPT	-	-	-	-	-
Total Non-GPT	140.1	0.7	315.6	252.4	30.6
Total: Under 19 Inches	140.1	0.7	316.0	321.9	31.8

APPENDIX TABLE 2 (Cont.)

	1982	1983	1984	1st Half 1985	1st Half 1984
			- $ 000 -		
Combinations: Total: All Sizes					
Korea	1.0	0.7	76.8	266.4	0.3
Singapore	-	0.4	-	-	-
Hong Kong	99.0	120.9	1.9	6.4	1.0
Other GPT	-	0.5	1.0	73 1	1.0
Total GPT	100.0	122.4	79.7	345.9	2.3
Japan	588.4	573.9	1,557.8	566.3	428.5
Taiwan	21.9	9.7	668.1	266.2	266.2
U.S.A.	1,753.8	321.8	192.8	65.2	124.4
Other Non-GPT	5.6	5.1	1.8	73.6	1.8
Total Non-GPT	2,369.7	910.5	2,420.6	971.3	821.0
Total: All Sizes	2,469.7	1,033.0	2,500.2	1,317.2	823.2
Kits, Under 19 Inches:					
Korea	0.2	-	-	121.0	-
Singapore	-	-	-	-	-
Hong Kong	-	-	-	299.3	-
Other GPT	-	-	-	-	-
Total GPT	0.2	-	-	420.3	-
Japan	1,136.1	3,102.0	1.1	-	0.5
Taiwan	-	0.5	-	1.9	-
U.S.A.	19.3	16.6	-	4.6	-
Other Non-GPT	-	0.3	-	-	-
Total Non-GPT	1,155.5	3,118.8	1.1	6.5	0.5
Total: Under 19 Inches	1,155.7	3,118.8	1.1	426.8	0.5

APPENDIX TABLE 2 (Cont.)

	1977	1978	1979	1980	1981
			- $ 000 -		
Kits, 19 Inches:					
Korea	-	-	-	-	-
Singapore	-	-	-	-	-
Hong Kong	-	-	-	-	1.0
Other GPT	-	-	1.4	-	-
Total GPT	-	-	1.4	-	1.0
Japan	1.8	0.5	1.5	1.3	0.5
Taiwan	-	-	-	-	-
U.S.A.	*	67.7	487.0	19.1	5.2
Other Non-GPT	-	-	-	-	1.7
Total Non-GPT	2.1	68.2	488.4	20.4	7.3
Total: 19 Inches	2.1	68.2	489.9	20.4	8.4
Kits, Over 19 Inches:					
Korea	-	-	-	0.7	76.8
Singapore	1.3	2.3	-	2.6	-
Hong Kong	-	-	-	-	-
Other GPT	-	-	-	-	3.5
Total GPT	1.3	2.3	-	3.3	80.3
Japan	1,235.6	267.1	437.4	453.6	4,537.9
Taiwan	-	-	-	58.8	-
U.S.A.	104.0	473.0	1,723.5	351.8	58.5
Other Non-GPT	-	-	0.6	165.2	0.8
Total Non-GPT	1,339.7	740.1	2,161.5	1,029.3	4,597.2
Total: Over 19 Inches	1,341.0	742.4	2,161.5	1,032.5	4,677.5

APPENDIX TABLE 2 (Cont.)

	1982	1983	1984	1st Half 1985	1st Half 1984
			- $ 000 -		
Kits, 19 Inches:					
Korea	0.2	-	-	-	-
Singapore	-	-	-	-	-
Hong Kong	-	-	-	-	-
Other GPT	-	-	-	-	-
Total GPT	0.2	-	-	-	-
Japan	-	3.3	1.9	4.5	1.9
Taiwan	-	-	-	-	-
U.S.A.	4.7	4.7	8.2	30.1	1.7
Other Non-GPT	-	-	-	-	-
Total Non-GPT	4.7	8.0	10.1	34.7	3.5
Total: 19 Inches	4.9	8.0	10.1	34.7	3.5
Kits, Over 19 Inches:					
Korea	-	1.0	-	-	-
Singapore	-	-	-	-	-
Hong Kong	-	-	-	-	-
Other GPT	-	-	-	-	-
Total GPT	-	1.0	-	-	-
Japan	2,220.8	3,127.5	8.5	6.1	4.6
Taiwan	1.8	0.6	-	-	-
U.S.A.	133.0	87.0	66.9	61.2	37.8
Other Non-GPT	-	0.4	-	-	-
Total Non-GPT	2,355.7	3,215.4	75.4	67.3	42.4
Total: Over 19 Inches	2,355.7	3,216.4	75.4	67.3	42.4

APPENDIX TABLE 2 (Cont.)

	1977	1978	1979	1980	1981
			- $ 000 -		
Kits, Total: All Sizes					
Korea	-	-	-	70.2	76.8
Singapore	1.3	2.3	*	2.6	-
Hong Kong	-	-	-	-	1.0
Other GPT	-	-	1.4	-	4.6
Total GPT	1.3	2.3	1.4	72.8	82.4
Japan	1,377.5	267.6	626.3	661.9	4,563.3
Taiwan	-	-	-	58.8	-
U.S.A.	104.0	541.4	2,338.8	416.0	69.4
Other Non-GPT	-	-	0.6	165.2	2.5
Total Non-GPT	1,481.9	809.0	2,965.5	1,301.9	4,635.2
Total: All Sizes	1,483.2	811.3	2,967.4	1,374.8	4,717.6
Total: Sets, Combinations & Kits:					
Korea	215.2	1,738.0	15,185.1	10,316.8	10,863.8
Singapore	7,357.4	9,565.4	12,232.6	3,851.0	6,368.9
Hong Kong	2.3	-	0.5	2.2	2.8
Other GPT	-	-	1.4	0.9	7.7
Total GPT	7,574.9	11,303.4	27,419.7	14,170.8	17,243.2
Japan	88,503.9	67,456.3	37,532.5	22,487.3	37,837.5
Taiwan	592.4	6,568.9	12,148.5	13,014.9	7,173.9
U.S.A.	54,757.1	122,051.8	119,013.1	104,709.1	89,919.7
Other Non-GPT	2.0	3.3	12.7	168.7	13.2
Total Non-GPT	143,855.5	196,080.4	168,706.8	140,380.0	134,944.3
Total: All Sizes	151,430.4	207,383.8	196,126.4	154,550.9	152,187.5
Residual(b)	396.1	121.4	41.9	576.3	121.2
Total - All Items	151,826.5	207,505.1	196,168.4	155,127.2	152,308.7

	1982	1983	1984	1st Half 1985	1st Half 1984
			- $ 000 -		
Kits, Total:					
All Sizes					
Korea	0.4	1.0	-	121.0	-
Singapore	-	-	-	-	-
Hong Kong	-	-	-	299.3	-
Other GPT	-	-	-	-	-
Total GPT	0.4	1.0	-	420.3	-
Japan	3,356.9	6,232.8	11.5	10.6	6.9
Taiwan	1.8	0.6	-	1.9	-
U.S.A.	157.1	108.2	75.1	95.9	39.4
Other Non-GPT	-	0.6	-	-	-
Total Non-GPT	3,515.8	6,342.2	86.6	108.4	46.4
Total: All Sizes	3,516.3	6,343.2	86.6	528.7	46.4
Total: Sets, Combinations & Kits:					
Korea	8,731.8	26,981.7	60,658.2	19,244.4	23,376.6
Singapore	6,458.8	9,014.6	8,278.7	3,876.6	336.4
Hong Kong	100.6	296.4	1,167.7	307.3	424.9
Other GPT	-	883.2	1,882.9	1,046.3	901.8
Total GPT	15,291.2	37,175.9	71,987.5	24,474.7	25,039.7
Japan	40,526.5	63,439.2	55,405.4	23,045.1	29,391.2
Taiwan	425.7	6,015.3	12,331.2	2,240.7	5,485.2
U.S.A.	81,609.3	87,388.4	81,862.2	32,969.5	40,389.1
Other Non-GPT	8.7	7.0	123.7	282.0	4.6
Total Non-GPT	122,570.2	156,849.9	149,722.6	58,537.3	72,270.1
Total: All Sizes	137,861.4	194,025.8	221,710.1	83,012.0	100,309.9
Residual(b)	166.7	51.8	422.9	12.4	144.0
Total - All Items	138,028.1	194,077.6	222,133.0	83,024.4	100,453.8

Notes: Totals may not add due to rounding.

* Indicates a value less than $500.

(a) Tariff item 44533-4 was introduced as of January 1, 1980 and tariff item 44533-5 was introduced as of January 1, 1985.

(b) The residual shown includes imports as reported under other than the three relevant tariff items. The resulting total is for all tariff items under commodity classes 637-11, 637-13 and 637-14.

Source: Statistics Canada and Tariff Board.

APPENDIX TABLE 3: COLOUR TELEVISION SETS: VALUE OF THE CANADIAN MARKET, 1972-1985[(a)]

	1972	1973	1974	1975	1976	1977	1978	1979
				- $ 000 -				
Shipments	190,775	221,811	205,293	173,854	170,908	104,134	84,498	129,535
Total Imports	81,279	104,397	114,585	87,781	143,104	151,826	207,505	196,168
of which:								
Korea	-	-	-	1	117	215	1,738	15,185
Total GPT	18	22	902	2,836	8,160	7,582	11,303	27,420
Japan	33,940	34,551	52,071	42,974	85,002	88,730	67,462	37,535
U.S.A.	47,085	67,608	59,230	40,679	47,843	54,920	122,167	119,052
Total Non-GPT	81,259	104,373	113,682	84,944	134,944	144,244	196,202	168,748
Total Supply	272,054	326,208	319,878	261,635	314,012	255,960	292,003	325,703
Less: Exports[(c)]	836	441	978	1,429	4,664	17,128	42,885	30,057
Canadian Market	271,218	325,767	318,900	260,206	309,348	238,832	249,118	295,646
				- per cent -				
GPT Imports as % of Total Imports	0.0	0.0	0.8	3.2	5.7	5.0	5.4	14.0
Total Imports as % of Canadian Market	30.0	32.0	35.9	33.7	46.3	63.6	83.3	66.4
GPT Imports as % of Canadian Market	0.0	0.0	0.3	1.1	2.6	3.2	4.5	9.3
Korea as % of Canadian Market	0.0	0.0	0.0	0.0	0.0	0.1	0.7	5.1
Japan and U.S.A. as % of Canadian Market	29.9	31.4	34.9	32.1	42.9	60.1	76.1	53.0
Domestic Shipments as % of Canadian Market[(d)]	70.0	68.0	64.1	66.3	53.7	36.4	16.7	33.6

	1980	1981	1982	1983	1984	1st Quarter 1985	1st Quarter 1984
				- $ 000 -			
Shipments	209,829	248,659	213,640	263,091	262,869	55,915	64,178
Total Imports	155,127	152,309	138,028	194,078	222,133	42,839	55,632
of which:							
Korea	10,390	10,867	8,732	26,982	60,893	9,914	14,228
Total GPT	14,244	17,248	15,291	37,178	72,223	12,404	16,140
Japan	22,500	37,838	40,528	63,443	55,439	12,468	15,344
U.S.A.	105,169	90,036	81,772	87,417	82,016	17,435	21,308
Total Non-GPT	140,883	135,061	122,737	156,900	149,910	30,435	39,492
Total Supply	364,956	400,968	351,668	457,169	485,002	98,754	119,810
Less: Exports(c)	28,605	32,796	33,753	42,192	49,110	15,175	10,333
Canadian Market	336,351	368,172	317,915	414,977	435,892	83,579	109,477
				- per cent -			
GPT Imports as % of Total Imports	9.2	11.3	11.1	19.2	32.5	29.0	29.0
Total Imports as % of Canadian Market	46.1	41.4	43.4	46.8	51.0	51.9	50.8
GPT Imports as % of Canadian Market	4.2	4.7	4.8	9.0	16.6	14.8	14.7
Korea as % of Canadian Market	3.1	3.0	2.7	6.5	14.0	11.9	13.0
Japan and USA as % of Canadian Market	38.0	34.7	38.5	36.4	31.5	35.8	33.5
Domestic Shipments as % of Canadian Market	53.9	58.6	56.6	53.2	49.0	48.7	49.2

(a) Includes colour sets, kits and combinations.
(b) Excludes imports under tariff item 44597-1 for the years 1984 and 1985.
(c) Reported by Statistics Canada under commodity class 63720, TV Receiving Sets, Exc. combination.
(d) Shipments less exports as per cent of the Canadian market.

Source: Statistics Canada, Catalogue No. 65-004, Exports by Commodities; Catalogue Nos. 65-203 and 65-207, Merchandise Trade; 1972 to 1980 and Tariff Board Industry Study. 1981-1985

APPENDIX TABLE 4: COLOUR TELEVISION SETS: KOREAN EXPORTS, BY COUNTRY OF DESTINATION, BY VALUE, 1982-1984

	1982		1983		1984	
	US $000	%	US $000	%	US $000	%
Region/Country						
N. America	122,376	66.1	295,409	83.7	358,074	80.6
of which:						
Canada	10,560	5.7	27,886	7.9	51,928	11.7
U.S.A.	111,727	60.4	266,498	75.5	306,146	68.9
S. America[a]	32,075	17.3	15,724	4.5	29,078	6.5
Europe	4,421	2.4	11,035	3.1	12,225	2.8
Middle East	8,160	4.4	13,650	3.8	9,671	2.2
Asia	14,131	7.6	9,707	2.7	28,646	6.4
Oceania	1,808	1.0	4,476	1.3	6,224	1.4
Africa	2,038	1.1	3,073	0.9	166	0.3
Total	185,008	100.0	353,075	100.0	444,084	100.0

Notes:
Totals may not add due to rounding.
(a) Includes Mexico.

Source: Statistics of Electronic & Electrical Industries, Electronic Industries Association of Korea. Minor statistical adjustments were made by Tariff Board.

APPENDIX TABLE 5: COLOUR TELEVISION SETS: KOREAN EXPORTS, BY VALUE, ACCORDING TO SCREEN SIZE AND COUNTRY OF DESTINATION, 1984(1)

	North America			S. America	Europe	Middle East	Asia	Oceania	Africa	Total
	Canada	U.S.A.	Total							
				- $US '000 -						
9 inches & less	-	4,311	4,311	103	3,024	2,346	224	-	-	10,002
10 to 14 inches	18,601	164,425	183,026	11,708	7,338	1,274	7,184	2,222	34	212,786
15 to 18 inches	4,189	23,047	27,236	5,053	710	1,768	7,202	2,209	58	44,236
19 inches & more	29,138	114,363	143,501	12,213	1,154	4,283	14,036	1,793	74	177,054
Total	51,928	306,146	358,074	29,078	12,225	9,671	28,646	6,224	166	444,084
				- percentages -						
9 inches & less	-	43.1	43.1	1.0	30.2	23.5	2.2	-	-	100.0
10 to 14 inches	8.7	77.3	86.0	5.5	3.5	0.6	3.4	1.0	0	100.0
15 to 18 inches	9.5	52.1	61.6	11.4	1.6	4.0	16.3	5.0	0.1	100.0
19 inches & more	16.5	64.6	81.1	6.9	0.7	2.4	7.9	1.0	0	100.0
Total	11.7	68.9	80.6	6.5	2.8	2.2	6.5	1.4	0	100.0

Notes:
Totals may not add due to rounding.
(1) Screen size is according to U.S. measurement standards. Export data by screen size not reported for earlier years.

Source: Statistics of Electronic & Electrical Industries, Electronic Industries of Korea. Minor statistical adjustments was made by Tariff Board.

APPENDIX TABLE 6: COLOUR TELEVISION SETS: KOREAN PRODUCTION AND EXPORTS, BY QUANTITY AND VALUE, ACCORDING TO SCREEN SIZE, 1984(1)

	Quantity		Value	
	000 Units	As %	000 Units	As %
Production				
9 inches & less	122	2.7	12,186	1.4
10-14 inches	2,704	58.6	486,907	57.2
15-18 inches	688	14.9	148,173	17.4
19 inches & more	1,099	23.8	204,625	24.0
Total	4,614	100.0	851,892	100.0
of which:				
Exports				
9 inches & less	115	3.9	10,002	2.2
10-14 inches	1,513	51.1	212,785	47.9
15-18 inches	288	9.7	44,236	10.0
19 inches & more	1,043	35.3	177,055	39.9
Total	2,959	100.0	444,084	100.0
Domestic Sales				
9 inches & less	7	0.4	2,337	0.6
10-14 inches	1,175	68.5	276,941	65.0
15-18 inches	347	20.2	90,828	21.3
19 inches & more	187	10.9	55,869	13.1
Total	1,715	100.0	425,976	100.0

Notes:
Totals may not add due to rounding.
(1) Screen size is according to U.S. measurement standards. Export data by screen size is not reported for years prior to 1984.

Source: Statistics of Electronic & Electrical Industries, Electronic Industries Association of Korea. Minor statistical adjustments were made by Tariff Board.

ANNEX

Ministre d'État
Ministère des Finances Canada

Minister of State
Department of Finance Canada

ANNEX A - LETTER OF REFERENCE

CONFIDENTIAL

January 20, 1982

Mr. John A. MacDonald,
Chairman,
Tariff Board,
365 Laurier Avenue West,
Ottawa, Ontario.
K1A 0G7

Dear Mr. MacDonald:

In view of the responsibilities which the Minister of Finance has delegated to me in relation to import policy, I am writing further to his letter of July 24, 1980, in which he asked the Board, pursuant to section 4(2) of the Tariff Board Act, to study and report on a number of matters relating to the General Preferential Tariff (GPT). As part of this reference, the Minister directed the Board to conduct inquiries into submissions that it receives from Canadian producers to the effect that the producer has suffered or may suffer injury as the result of the General Preferential Tariff.

In that regard, I would like to provide additional guidance to the Board in cases where imported goods, the subject of a petition by a Canadian producer, may be dumped or subsidized. It is the Government's position that in cases where material injury to Canadian production is caused or threatened by dumping or subsidization, it is appropriate for the Canadian producers to seek relief under the provisions of the Anti-dumping Act or the Countervailing Duty Regulations. I, therefore, direct the Board, in any case where there are indications that the injury or threat of injury claimed to exist may be the result of the dumping or subsidization of the imported products, to consult with the Department of National Revenue and, where appropriate, to direct the applicants to seek relief under the provisions of the Anti-dumping Act or the Countervailing Duty Regulations.

I would also direct the Board, pursuant to section 4(2) of the Tariff Board Act, to conduct an inquiry into the question of whether or not Canadian producers would be injured, according to the criteria used for reviewing safeguard petitions, if the Orders in Council which currently exclude rubber footwear and

Ottawa, Canada
K1A 0G5

colour television receiving sets from the benefits of the GPT were allowed to lapse on their current expiry date of December 31, 1982. I would ask the Board to submit its report on this inquiry no later than November 1, 1982.

Yours sincerely,

Pierre Bussières.

Minister of State
Department of Finance Canada

Ministre d'État
Ministère des Finances Canada

Ottawa Canada
K1A 0G5

ANNEX B - LETTER OF THE HONOURABLE ROY MACLAREN

February 10, 1984

Mr. John A. MacDonald
Chairman
Tariff Board
365 Laurier Avenue West
Ottawa, Ontario
K1A 0G7

Dear Mr. MacDonald:

I am writing to provide further guidance to the Tariff Board in respect of the letter of reference of July 24, 1980, as it relates to petitions for temporary safeguard actions under the General Preferential Tariff (GPT).

The letter of reference sets out procedures and time limits for the Board to be guided by in dealing with petitions from Canadian producers for the withdrawal of GPT rates where importations of goods at these rates are alleged to be causing or threatening injury to domestic production. I think it would be useful to clarify the Board's responsibilities in those instances where temporary safeguard actions have already been implemented by the government. As you no doubt appreciate, the government intends that these safeguard measures should be maintained only for such time as is necessary to prevent or remedy the injury caused domestic producers by the lower GPT rates. In cases where temporary action has been taken, I believe it would be useful for the Board to take those administrative and procedural steps that are necessary to ensure that it has at its disposal information needed to assess the effects which the reintroduction of GPT rates would have on domestic production and imports.

I would therefore direct the Board, pursuant to section 4(2) of the Tariff Board Act, to collect any relevant information relating to a safeguard measure under the GPT while it is in effect, to receive and review petitions which may be made by interested parties relating to the future status of the measure and to report to the government on these petitions. The Board's report should be submitted to the Government not less than 60 days before the measure is due to lapse. Of course, should the Board not receive any petitions, I would not expect it to conduct any hearings and the measure would be allowed to lapse on its scheduled expiry date.

.../2

It is my view that interested parties will thus have ample opportunity for their views to be taken into account prior to any decision being taken by the government on the question of the future status of GPT safeguard actions.

Yours sincerely,

Roy MacLaren

Roy MacLaren

Minister of State
Finance

CANADA

Ministre d'État
Finances

May 30, 1985

ANNEX C - LETTER OF THE HONOURABLE BARBARA McDOUGALL

Mr. D.R. Yeomans
Chairman
The Tariff Board
21st Floor
Journal Tower South
365 Laurier Avenue West
Ottawa, Ontario
K1A 0G7

Dear Mr. Yeomans:

I am writing to clarify a technical question which has arisen in connection with the process which has been established to review petitions from Canadian producers for the continuation of temporary measures withdrawing the General Preferential Tariff rates of duty from imported goods.

Under procedures set out in a letter of reference dated July 24, 1980 and elaborated on in a subsequent letter of reference dated February 10, 1984, the Tariff Board has been given the authority to review and make recommendations to the Minister of Finance concerning petitions from Canadian producers for the withdrawal of GPT rates of duty in cases where these producers have suffered or may suffer injury as a result of the application of those rates. I believe it would be desirable to further clarify the Board's authority to undertake reviews of any petitions in the case of the two safeguard measures first introduced by Order in Council prior to July 24, 1980 under which the GPT had been temporarily withdrawn from rubber footwear and colour television sets. These withdrawals are now scheduled to lapse on December 31, 1985.

I would therefore direct the Board, pursuant to section 4(2) of the Tariff Board Act, to conduct inquiries into any petitions that it has received or might receive from Canadian producers for the continuation of these two GPT withdrawal measures.

In dealing with other petitions from Canadian manufacturers seeking the withdrawal of the GPT on imported products, or in dealing with petitions concerning the continuation

.../2

of GPT safeguard measures implemented on or after July 24, 1980, the Board, of course, should continue to be guided by the instructions in the two previous letters of reference relating to the GPT.

Yours very truly,

Barbara McDougall

Barbara McDougall

Enclosure

ANNEX D

BEFORE THE TARIFF BOARD

PETITION TO REVIEW THE FUTURE STATUS OF THE TEMPORARY WITHDRAWAL OF THE GPT FOR COLOUR TELEVISIONS

The Canadian producers of colour television receiving sets (colour televisions): Electrohome Limited, Hitachi Sales Corp. of Canada Ltd., Matsushita Industrial Canada Ltd., Mitsubishi Electric Sales Canada Inc., RCA Inc., and Sanyo Canada Inc. hereby petition the Tariff Board in accordance with Tariff Board Notice R-223 to review the future status of the existing temporary withdrawal of the General Preferential Tariff (GPT) for colour televisions for the reason that the importation of colour televisions at GPT tariff rates cause or threaten injury to domestic production.

Dated at the City of Ottawa, this 22nd day of November, A.D. 1984.

Michael A. Kelen

Michael A. Kelen
Of Counsel for the Canadian
Producers of Colour Televisions.

ANNEX E

REFERENCE 160.1

ATTENDANCE AT PUBLIC HEARING
HELD ON JUNE 26, 1985, OTTAWA

ORGANIZATION	REPRESENTATIVE(S)
Canadian Producers of Colour Television Receiving Sets	M.A. Kelen S.M. Gowran J. MacNeil Glen Cranker Jeremy Barry
Consumers' Association of Canada	John Tyhurst
Corporation House	Eric Hehner
CWC	M. Watt
Department of Regional Industrial Expansion	R. Walsh
Electrohome Limited	C. Kreutzweiser
Electronic Industries Association of Korea (EIAK)	M. C.J. Flavell A.H.A. Keenleyside S.I. Chun
Gold Star Co.	K.S. Chung
Hitachi (HSC) Canada Inc.	E. Vonarburg A. Antoniak
Institute for Research on Public Policy (IRPP)	Frank Stone
Korean Embassy	Y. Park
Matsushita Industrial Canada Limited	Tom Fischer Y. Murakami Dave Mortimer
National Revenue - Customs	Pierre Riopel
Philips Electronics Ltd.	O. Persaud
RCA Inc.	L. Joly P. Scheibling K.P. Ash

ANNEX E (CONT'D)

ORGANIZATION	REPRESENTATIVE(S)
Samsung Electronics Co.	S.E. Lee
Sanyo Industries Canada Inc.	T. Sato M. Bellman L. Romanelli
Sears Canada Inc.	G. Carson
Tracon Consultants Ltd.	Cy Kemp Murray Collins

ANNEX F
TARIFF SCHEDULE PERTAINING TO
COLOR TELEVISION RECEIVING SETS, 1985

SCHEDULE "A"

Tariff Items Date and No. of Memo	Goods Subject to Duty and Free Goods	British Preferential Tariff	Most-Favoured-Nation Tariff	General Tariff	General Preferential Tariff	U.K. and Ireland
	Radio and television apparatus and parts thereof, n.o.p.:					
44533-1	Other than the following	Free	11 p.c.	25 p.c.	Free	9.5 p.c.
	Colour television receiving sets excluded from General Preferential Tariff. (30/06/84 to 31/12/85, P.C. 1984-2649)					
44533-2	Domestic radio receiving sets, including radio receiving sets for motor vehicles, other than receiver-tuner-amplifier combinations; parts of domestic radio receiving sets	Free	3.8 p.c.	25 p.c.	Free	Free
44533-3	Receiver-tuner-amplifier combinations of domestic radio receiving sets, including radio receiving sets for motor vehicles	Free	4.7 p.c.	25 p.c.	Free	Free
44533-4	Domestic colour television receiving sets, other than 19 inch screen; parts of domestic colour television receiving sets	Free	10 p.c.	25 p.c.	Free	7.5 p.c.
	Colour television receiving sets excluded from General Preferential Tariff. (30/06/84 to 31/12/85, P.C. 1984-2649)					
44533-5	Domestic colour television receiving sets, 19 inch screen	Free	11 p.c.	25 p.c.	Free	8.2 p.c.
44533-6	Monochrome television receiving sets and parts thereof	Free	3 p.c.	25 p.c.	Free	Free
44533-7	Colour television cameras and parts thereof	Free	Free	25 p.c.	Free	Free
44533-8	Domestic receiving antennae, and mountings therefor, for radio or television, not including citizens band radio	Free	11.4 p.c.	25 p.c.	Free	9.8 p.c.
	Except that in the case of television apparatus and parts thereof, for use in community antenna television transmission lines, classified under tariff items 44533-1 or 44533-8, that are the manufacture of the United Kingdom of Great Britain and Northern Ireland, the Channel Islands, the Isle of Man, or the Republic of Ireland, the Most-Favoured-Nation Tariff applies.					

REFERENCE 161

RELATING TO
THE RE-INSTATEMENT OF THE GENERAL PREFERENTIAL TARIFF ON IMPORTS OF RUBBER FOOTWEAR

A REPORT BY
THE TARIFF BOARD

REFERENCE
161

REFERENCE 161

RELATING TO THE RE-INSTATEMENT OF THE GENERAL PREFERENTIAL TARIFF ON IMPORTS OF RUBBER FOOTWEAR

This report made pursuant to a reference by the Minister of Finance and signed by the Board on July 26, 1982, is presented for tabling in Parliament under the provisions of section 6 of the Tariff Board Act.

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REFERENCE 161

RELATING TO THE RE-INSTATEMENT OF THE GENERAL PREFERENTIAL TARIFF ON IMPORTS OF RUBBER FOOTWEAR

The Board was requested by the letter of reference reproduced in part below, from the Honourable Pierre Bussières, the Minister of State for Finance, to inquire whether or not the proposed re-instatement of the General Preferential Tariff (GPT) on rubber footwear, currently withdrawn until December 31, 1982 by Order-in-Council P.C. 1979-3521, would cause injury to Canadian producers of such footwear.

The Minister's letter of reference dated January 20, 1982, reads in part as follows:

> "I would also direct the Board, pursuant to section 4(2) of the Tariff Board Act, to conduct an inquiry into the question of whether or not Canadian producers would be injured, according to the criteria used for reviewing safeguard petitions, if (the Order-in-Council) which currently excludes rubber footwear ... from the benefits of the GPT were allowed to lapse on (its) current expiry date of December 31, 1982. I would ask the Board to submit its report on this inquiry no later than November 1, 1982."

The rubber footwear subject to the temporary GPT withdrawal includes rubber sandals, no longer produced in Canada, and all-rubber boots, snowmobile boots, rubber bottom - leather top boots, and overshoes, rubbers and galoshes currently manufactured domestically. These relevant goods enter under tariff item 61700-1 with the following nomenclature and statutory rates of duty:

		British Preferential	Most-Favoured-Nation	General Tariff	General Preferential Tariff	U.K. and Ireland
61700-1	Rubber boots and shoes	Free	20 p.c.	25 p.c.	Free (temporarily withdrawn)	20 p.c.

The Board carried out its inquiry and held a public hearing on May 31, 1982, in Ottawa, attended by representatives of Canadian producers of rubber footwear (Wm. Kaufman, Inc., Alfred Lambert, Inc., Bata Industries Limited, Vimod Rubber Co., and Genfoot, Inc.) and other interested parties.

During the course of the inquiry, the Board received representations that it would be desirable to have the Board report at the earliest possible date because a number of the industry's investment decisions might be affected by the Board's conclusions. In response to these representations the Board has found it possible to issue its report in advance of the due date.

Upon reviewing the evidence, the Board finds that during the years since the withdrawal of the GPT rate of Free there has been considerable progress in the consolidation and rationalization of Canadian rubber footwear production. A significant aspect of this improvement is the investment by the industry in new, technologically-advanced equipment.

The Canadian rubber footwear industry, as a result, is becoming more competitive with foreign producers, and has lately increased its overall share of the domestic market and expanded exports. Nevertheless, imports continue to be a major factor in the domestic market as a whole, and a dominant one in certain segments, as less developed countries have increased their share of Canadian rubber footwear imports in recent years despite the current GPT withdrawal. Such penetration would deepen if the GPT were to be re-instated which would mean a reduction in the rate of duty on GPT imports from the current 20 p.c. to Free.

The Board, therefore, concludes that Canadian producers would be injured if the Order-in-Council which currently excludes rubber footwear from the benefits of the GPT were allowed to lapse on its current expiry date of December 31, 1982.

Chairman

First Vice-Chairman

Second Vice-Chairman

A. C. Kilbank
Member

K. C. Martin
Member

Member

R. K. Matthie
Member

July 26, 1982

Au cours de l'enquête, on a soumis à la Commission qu'il serait souhaitable que cette dernière produise son rapport le plus tôt possible vu qu'un bon nombre de décisions concernant des projets d'investissement dans l'industrie pourraient être affectées par les recommandations de la Commission. Afin de répondre à cette demande, la Commission a cru bon d'émettre son rapport avant la date d'échéance.

Après étude de la preuve, la Commission constate que depuis le retrait du taux TPG en franchise, il y a eu un progrès considérable dans la consolidation et la rationalisation de la production de chaussures en caoutchouc. Un aspect important de cette amélioration est l'investissement fait par l'industrie dans de nouveaux appareils technologiques modernes.

Il en résulte que l'industrie canadienne de chaussures de caoutchouc devient plus compétitive face aux producteurs étrangers; elle a récemment accru la part qu'elle détenait dans le marché canadien et a augmenté ses exportations. Néanmoins, les importations demeurent un facteur important sur le marché canadien en général et un facteur dominant dans certains secteurs de l'industrie étant donné que les pays moins développés ont augmenté leur part des importations canadiennes de chaussures en caoutchouc durant les dernières années malgré le retrait actuel du TPG. Une telle percée s'aggraverait si le TPG était rétabli puisque cela signifierait une réduction de taux de droit pour les importations TPG du 20 p.c. actuel jusqu'à la franchise.

En conséquence, la Commission conclut que les producteurs canadiens subiraient un préjudice si le décret qui exclut actuellement les chaussures en caoutchouc des avantages du TPG cessait de s'appliquer le 31 décembre 1982, comme prévu.

Président

Premier vice-président

Deuxième vice-président

Membre

Membre

Membre

Membre

Le 26 juillet 1982

RENVOI 161

RELATIF AU RÉTABLISSEMENT DU TARIF DE PRÉFÉRENCE GÉNÉRAL POUR LES IMPORTATIONS DE CHAUSSURES EN CAOUTCHOUC

Dans une lettre de référence reproduite en partie dans le paragraphe qui suit, l'honorable Pierre Bussières, ministre d'Etat aux Finances, demandait à la Commission du tarif de faire enquête afin de déterminer si le rétablissement proposé du Tarif de préférence général pour les chaussures en caoutchouc, retiré présentement par le décret C.P. 1979-3521 jusqu'au 31 décembre 1982, causerait un préjudice aux producteurs canadiens de ce genre de chaussures.

La lettre de référence du Ministre, datée du 20 janvier 1982, se lit en partie comme suit:

> "J'ordonnerais également à la Commission, conformément au paragraphe 4(2) de la Loi sur la Commission du tarif, de faire enquête afin de déterminer si les producteurs canadiens subiraient un préjudice, selon les critères servant à examiner les demandes d'application de mesures de sauvegarde, si le décret qui exclut actuellement les chaussures en caoutchouc ... des avantages du TPG cessait de s'appliquer le 31 décembre 1982, comme prévu. Je demanderais à la Commission de présenter son rapport sur cette enquête au plus tard le 1er novembre 1982."

Les chaussures en caoutchouc assujetties au retrait temporaire du TPG comprennent les sandales en caoutchouc qui ne sont plus fabriquées au Canada, les bottes en caoutchouc, les bottes de motoneige, les bottes en cuir avec semelles de caoutchouc, les couvre-chaussures et les caoutchoucs divers présentement fabriqués au pays. Les produits en question sont importés sous le numéro tarifaire 61700-1 dont la nomenclature et les taux de droit imposés sont les suivants:

	Tarif de préférence britannique	Tarif de la nation la plus favorisée	Tarif général	Tarif de préférence général	R.U. et Irlande
61700-1 Bottes, bottines et souliers en caoutchouc	En fr.	20 p.c.	25 p.c.	En fr. (temporairement retiré)	20 p.c.

La Commission a fait enquête et le 31 mai 1982 une audience publique fut tenue à Ottawa à laquelle ont assisté les représentants de producteurs canadiens de chaussures en caoutchouc (Wm. Kaufman, Inc., Alfred Lambert, Inc., Bata Industries Limited, Vimod Rubber Co., et Genfoot, Inc.), ainsi que d'autres parties intéressées.

LA COMMISSION DU TARIF

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RENVOI 161

RELATIF AU RÉTABLISSEMENT DU TARIF DE PRÉFÉRENCE GÉNÉRAL POUR LES IMPORTATIONS DE CHAUSSURES EN CAOUTCHOUC

Ce rapport, préparé suite à une référence du ministre des Finances et signé par les membres de la Commission du tarif le 26 juillet, 1982, est remis au ministre pour présentation au Parlement en vertu de l'article 6 de la Loi sur la Commission du tarif.

RENVOI 161

RELATIF AU RÉTABLISSEMENT DU TARIF DE PRÉFÉRENCE GÉNÉRAL POUR LES IMPORTATIONS DE CHAUSSURES EN CAOUTCHOUC

RENVOI

161

RAPPORT DE

LA COMMISSION DU TARIF

REFERENCE 161.1

RELATING TO THE REINSTATEMENT OF THE GENERAL PREFERENTIAL TARIFF ON IMPORTS OF RUBBER FOOTWEAR

REFERENCE
161.1

A REPORT BY
THE TARIFF BOARD

REFERENCE 161.1

RELATING TO THE REINSTATEMENT OF THE GENERAL PREFERENTIAL TARIFF ON IMPORTS OF RUBBER FOOTWEAR

This report made pursuant to a reference by the Minister of Finance and signed by the Board on October 30, 1985, is presented for tabling in Parliament under the provisions of section 6 of the Tariff Board Act.

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CHAPTER 1. BACKGROUND

The General Preferential Tariff

On July 1, 1974, Canada introduced a system of tariff preferences designated as the General Preferential Tariff (GPT). Thereby, industrial goods then originating in 103 less-developed countries and territories(1) generally became admissible into Canada at the lower of the British Preferential (BP) rate of duty or two-thirds of the Most-Favoured-Nation (MFN) rate. Specific duty preferences were also established in relation to selected agricultural products. However, many agricultural commodities, a few industrial raw materials, most textile and clothing products, all leather footwear, and certain electron tubes were excluded from the coverage of the General Preferential Tariff, primarily on account of the perceived sensitivity of Canadian production in these sectors to import competition.

The General Preferential Tariff was not made a permanent part of the Canadian tariff structure. Initially, it was put into place for a ten-year period only, but the time span has recently been extended. The GPT is now scheduled to expire on June 30, 1994, "or on such earlier day as may be fixed by proclamation".(2)

Changes to the General Preferential Tariff - notably, with respect to the list of beneficiary countries and the range of admissible products - may be effected by Order in Council. Thus, by April 19, 1985, the number of preferred territories had been increased to 162, of which 60 were also beneficiaries under the BP Tariff. A further refinement now permits duty-free entry (as distinct from preferential treatment) in respect of all goods to which the General Preferential Tariff applies that are imported from a territory designated as a "least developed developing country". Thirty-six territories had been so designated as of April 1, 1985.

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(1) The list of countries has been modified subsequently. Those whose goods were eligible to enter under the General Preferential Tariff as of April 19, 1985 are listed in Appendix I, infra, pp. 65-6.

(2) For legislative provisions respecting the General Preferential Tariff, see Customs Tariff, sec. 3.1 to 3.7.

Since the implementation of the General Preferential Tariff, some new products have been added to the range of admissible commodities while, partly in compensation for the general lowering of MFN rates consequent upon the Tokyo Round of multilateral trade negotiations, margins of preference with respect to certain other products emanating from the less developed countries have been more favourably recast, with duty-free status being conceded in some instances.(1)

The GPT legislation (subsection 3.2(2) of the Customs Tariff) also provides that "the Governor in Council may, by order, from time to time, withdraw the benefit of the General Preferential Tariff in whole or in part from any country to which it has been extended"; and, following implementation of the scheme, a number of requests for safeguard action (i.e. withdrawal of the GPT on certain products because of injury or threat of injury) were received from Canadian producers. However, in the first three years of its operation the GPT was withdrawn only in respect of rubber footwear(2) and certain colour television receiving sets.

The representations which were made to the Minister of Finance at that time indicated a feeling on the part of Canadian producers that the safeguard provisions then in place were inadequate and did not allow for prompt consideration and open review of petitions for withdrawal or suspension of preferences. Accordingly, in a letter of reference to the Tariff Board, dated July 24, 1980, concerning the General Preferential Tariff, the Minister requested the Board to conduct inquiries under section 4(2) of the Tariff Board Act into petitions for the initiation of safeguard action submitted to it by Canadian producers claiming injury, or a threat thereof, in consequence of imports entering under the GPT.

Although the General Preferential Tariff, being a unilateral arrangement, lies outside the purview of the General Agreement on Tariffs and Trade, the Board's consideration of injury is expected by the Minister "to take into

(1) A number of such changes were made following the Board's report on Reference 158. Relating to the General Preferential Tariff. Part I (1981) and Part II (1982).

(2) See infra, pp. 4-5.

account those economic factors generally recognized as relevant to a determination of injury such as those contained in the GATT Anti-dumping Code and the Code on Subsidies and Countervailing Duties".(1) Such factors include: "actual and potential decline in output, sales, market share, profits, productivity, return on investments, or utilization of capacity; factors affecting domestic prices; actual and potential negative effects on cash flow, inventories, employment, wages, growth, ability to raise capital or investment and, in the case of agriculture, whether there has been an increased burden on government support programmes".(2) The Codes specify that this list "is not exhaustive, nor can one or several of these factors necessarily give decisive guidance". In further elaboration of the Board's mandate, the Minister informed the Board that he "would not expect it to recommend safeguard action unless it were fully satisfied that there is actual injury to Canadian producers or an actual threat thereof due to imports at the reduced rates of duty under the GPT".

Assuming that the Board is able to satisfy itself fully on the matter of injury, it must then determine the most appropriate course of safeguard action to recommend. The Board may recommend, as a permanent or temporary measure, the withdrawal of GPT benefits in relation to the products of one or all of the beneficiary countries. Such a recommendation may encompass not only products identical to those for which protection has been sought, but other similar and directly-competitive goods as well. In the event that the total withdrawal of GPT benefits is recommended, the relevant goods would then become dutiable at current BP or MFN rates, as applicable. In the case of a partial withdrawal of benefits, the Board might suggest a GPT rate above that currently in effect but below that currently applicable under the BP and MFN Tariffs. A further possibility is the imposition of a tariff rate quota in respect of imports from one or more countries entitled to the benefits of the

(1) Letter of reference dated July 24, 1980, to the Chairman of the Tariff Board requesting the Board, pursuant to section 4(2) of the Tariff Board Act, to conduct an inquiry into a number of matters relating to the General Preferential Tariff.

(2) GATT Code on Subsidies and Countervailing Duties: Agreement on Interpretation and Application of Articles VI, XVI and XXIII of the General Agreement on Tariffs and Trade (Geneva, 1979), p. 15; also Revised GATT Anti-dumping Code: Agreement on Implementation of Article VI of the General Agreement on Tariffs and Trade (Geneva, 1979), p. 8.

General Preferential Tariff. In that event, imports up to a pre-determined level would be admitted in any period of twelve consecutive months at the existing GPT rate; subsequently, BP and MFN tariff rates would apply.

Temporary safeguard actions imply the probable need for a review process at some future stage. In anticipation of this requirement, the Minister of State for Finance wrote to the Chairman of the Tariff Board on February 10, 1984, asking the Board, pursuant to section 4(2) of the Tariff Board Act "to collect any relevant information relating to a safeguard measure under the GPT while it is in effect". At the same time, the Board was instructed "to receive and review petitions which may be made by interested parties relating to the future status of the measure and to report to the government on these petitions".(1) Guidelines developed by the Board require that such petitions be received not later than six months prior to the due date of the Board's report. The Board is required to submit its report to the Minister at least 60 days prior to the scheduled expiration of the safeguard action. If no petition is received by the Board, the safeguard measure is allowed to lapse on its scheduled expiry date.

The GPT and Rubber Footwear Imports

Although leather footwear has never been admitted under the General Preferential Tariff (being excluded by Order in Council when the GPT was brought into effect), rubber boots and shoes were initially allowed duty-free entry under the scheme, the relevant tariff item being 61700-1 ("rubber boots and shoes"). However, as of August 28, 1975, in response to complaints from domestic manufacturers, the authority of the Governor in Council was used to effect the temporary withdrawal of the GPT from all beneficiaries with respect to rubber footwear. In consequence, the pertinent goods became dutiable at

(1) In a subsequent letter, dated May 30, 1985, these instructions were further clarified with particular reference to safeguard measures pertaining to rubber footwear and colour television receiving sets.

the MFN bound rate of 20 p.c., unless the beneficiary countries also happened to qualify under the British Preferential Tariff,[1] in which case duty-free access continued to be provided.

This withdrawal of GPT benefits, originally scheduled to expire on June 30, 1976, was subsequently extended on three occasions[2] and was in effect on January 20, 1982, when the Minister of State for Finance wrote to the Chairman of the Tariff Board in the following terms:

> I would also direct the Board, pursuant to section 4(2) of the Tariff Board Act, to conduct an inquiry into the question of whether or not Canadian producers would be injured, according to the criteria used for reviewing safeguard petitions, if the Orders in Council which currently exclude rubber footwear and colour television receiving sets from the benefits of the GPT were allowed to lapse on their current expiry date of December 31, 1982. I would ask the Board to submit its report on this inquiry no later than November 1, 1982.

In its inquiry, the Board found that, since the original withdrawal of the GPT rate of Free, there had been "considerable progress in the consolidation and rationalization of Canadian rubber footwear production", and it was felt that the domestic industry was "becoming more competitive with foreign producers", having increased its overall share of the home market as well as expanding its exports. Nevertheless, imports continued "to be a major factor in the domestic market as a whole, and a dominant one in certain segments". The Board concluded that import penetration would deepen and Canadian producers would be injured if the General Preferential Tariff were to be reinstated with respect to rubber footwear; it therefore recommended a continuation of the withdrawal of GPT benefits after the scheduled expiry date of December 31, 1982.[3]

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(1) As, for example, Malaysia and Sri Lanka.
(2) On July 1, 1976, for 12 months; on July 1, 1977, for 30 months; and on January 1, 1980 for 24 months.
(3) Tariff Board, Reference 161. Relating to the Re-instatement of the General Preferential Tariff on Imports of Rubber Footwear (1982), pp. 1-2.

Subsequent to the Board's report, the withdrawal of GPT benefits with respect to most of the goods classified under tariff item 61700-1 was extended by Order in Council for a further three-year period to December 31, 1985. However, sandals made wholly of rubber, noted by the Board to be no longer produced in Canada,(1) were excluded from the withdrawal - initially for an 18-month period, which was subsequently extended - and are now allowed duty-free entry, on a temporary basis, under the GPT.

The Board's present concern with these tariff arrangements stems from a petition, dated February 11, 1985, submitted on behalf of four Canadian producers of rubber footwear - viz: Alfred Lambert Inc., Genfoot Inc., William H. Kaufman Inc., and Vinaflex Canada Ltd. - "seeking to have the GPT withdrawal extended beyond December 31, 1985 and, if possible, permanently" and requesting the Board "to review its findings (in its report to the Minister) of July 26, 1982".

In accordance with the general procedures laid down in the Minister's letter of February 10, 1984 for reviewing temporary safeguard actions,(2) the Board proceeded with an inquiry and held a public hearing in Ottawa on May 29, 1985. The hearing was attended by representatives of the four aforementioned producers and by other interested parties.(3)

Applicable Tariff Provisions

The Orders in Council by which, from time to time, the benefits of the General Preferential Tariff have been temporarily withdrawn in respect of rubber footwear, have made specific reference to tariff item 61700-1. Previously numbered (before August 23, 1965) as item 617, this is an old-established tariff provision which has changed comparatively little over the years.

(1) Ibid., p. 1.
(2) See supra, p. 4.
(3) See infra, pp. 27-35.

In the restructured version of the Canadian Customs Tariff, effective November 30, 1906, the item had the following nomenclature and rates of duty:

Item 617	British Preferential	Intermediate	General
India-rubber boots and shoes	15 p.c.	22 1/2 p.c.	25 p.c.

The word "India" was dropped from the description of goods on June 27, 1944 (thus broadening the coverage of products to include footwear made from synthetic rubber); otherwise, the nomenclature of the item has remained unchanged to the present day.

The most substantial change in rates occurred as a result of the Imperial Economic Conference held in Ottawa in 1932, following which, effective October 13, 1932, the rate of duty applicable under the BP Tariff was reduced to Free. The MFN rate of 22 1/2 p.c. remained in effect until January 1, 1968, having been bound under GATT twenty years earlier. As a result of the Kennedy Round of multilateral trade negotiations, the bound rate was reduced to 20 p.c., effective June 4, 1969. No further rate reductions resulted from the Tokyo Round of multilateral trade negotiations concluded in April, 1979. As already noted,(1) the General Preferential Tariff was introduced on July 1, 1974. However, provision for duty-free entry thereunder has been suspended since August 28, 1975.

With the above changes, the present wording and rates of the item are as follows:

Item 61700-1	BP	MFN	Gen.	GP	U.K. & Ire.
			- per cent -		
Rubber boots and shoes	Free	20	25	Free	20
Only sandals wholly of rubber allowed under General Preferential Tariff. (30/06/84 to 31/12/85 P.C. 1984-2649)					

(1) Supra, pp. 1,4-5.

While the main focus of the Board's attention must be on goods entering under the aforementioned tariff item, a review of relevant commodity class data reveals that a variety of other tariff items have also been used to a lesser extent for the entry of rubber footwear products. Doubtless, some of the goods at issue have been given an incorrect tariff classification; the appropriate classification for boots or shoes made wholly of rubber would seem, quite clearly, to be tariff item 61700-1. However, footwear may be made from a combination of rubber and other materials, or it may, as in the case of "chest waders", be intended to provide waterproof protection for parts of the body in addition to the feet. In some instances, therefore, difficult tariff classification decisions will be involved.

The other tariff provisions, apart from tariff item 61700-1, which have been used to enter goods falling into rubber footwear commodity classes in recent years are set out below. The rates are those applicable at the beginning of 1985. In line with earlier comments,[1] it will be noted that, in the case of two of these provisions (i.e. tariff items 56300-1 and 61105-1), no GPT rate has been established.

	BP	MFN	Gen.	GP	U.K. & Ire.
Item 56300-1			- per cent -		
Clothing, wearing apparel and articles made from woven fabrics, and all textile manufactures, wholly or partially manufactured, the textile component of which is fifty per cent or more, by weight, of man-made fibres or filaments or of glass fibres or filaments, not containing wool or hair	20	25	50	-	25

(1) Supra, p. 1.

	BP	MFN	Gen.	GP	U.K. & Ire.
Note: The discount on importations under British Preference, as provided for under section 5 of this Act, might be applicable.(1)					
Item 61105-1 Boots, shoes, slippers and insoles of any material, n.o.p.	18.3	23.4	40	-	22.8
Item 61110-1 Canvas shoes with rubber soles	18	21.3	40	14	20
Item 61800-1 Rubber cement and all manufactures of rubber and gutta percha, n.o.p.	12.1	12.1	27.5	8	12.1
Item 61905-1 Rubber clothing and clothing made from waterproofed cotton fabrics	20	22.5	35	15	22.5
Note: The discount on importations under British Preference, as provided for under section 5 of this Act might be applicable.(1)					

Of these various provisions, tariff item 61105-1 is the one which has been most commonly used as an alternative to tariff item 61700-1.

Other Protective Measures

Where, as in the case of the aforementioned tariff items, there is an *ad valorem* factor in the rate of duty, the value attached to goods for duty purposes may be as significant a protective device as the rate of duty itself. Any advance in value is accompanied by a commensurate increase in

(1) Subsection 5(1) of the *Customs Tariff* provides, in appropriate instances, for a discount of 10 p.c. in BP rates in cases of direct shipment.

duties payable. Values are also significant in relation to the imposition of such charges as anti-dumping duties, about which more will be said subsequently,(1) and federal sales and excise taxes.

Under the Canadian system of customs valuation, as it was applied prior to the beginning of 1985, the value of goods for duty purposes was based upon the notion of "fair market value". This was the price at which like goods were freely traded under comparable conditions and circumstances (with particular reference to level of trade, date of transaction, and place of shipment) on the domestic market of the country of origin. If information necessary to the determination of fair market value was not available to the Canadian customs administration at the time of importation, or if the circumstances were otherwise "unusual" (e.g. involving production in a state-controlled economy), the Minister of National Revenue was authorized under sections 39 and 40 of the Customs Act to prescribe the value of goods for duty purposes. In the case of low-cost imports, the value for duty might thereby be substantially raised in relation to the declared selling price,(2) and hence the protective effect of the tariff might be significantly increased.

Prior to the adoption by Canada at the beginning of 1985 of the principles embodied in the GATT Customs Valuation Code - entailing recognition of transaction value, rather than fair market value, as the primary basis for customs valuation - a high proportion of footwear (including rubber footwear) imported into Canada had become subject to ministerial prescriptions with respect to valuation for duty purposes. A listing of the relevant prescriptions will be found in Appendix II.(3) Depending upon the type of footwear and country of origin, selling prices in many instances were thereby advanced for duty purposes by between 5 and 50 per cent. In the case of footwear imported from state-trading (communist) countries, the extent of the advances in dutiable value are difficult to gauge, in that the application of ministerial prescriptions required the value of goods to be determined on the basis of the (unspecified) value of comparable goods in third countries.

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(1) Infra, pp. 11-13.
(2) Legislation (6-7 Edw. VII., c.10, s.4) provided that the value for duty could not be less than the invoice price.
(3) Infra, pp. 67-81.

Although the ability to impose ministerial prescriptions under the valuation provisions of the Customs Act has been lost with the implementation of the new valuation system, it is still possible, where considered appropriate and necessary, for the Minister to "specify" the "normal value" and/or "export price" of goods for duty purposes under the anti-dumping provisions of the Special Import Measures Act, which became effective on December 1, 1984. The difference between the two aforesaid values is represented as the "margin of dumping"; and should inquiry reveal consequential injury to Canadian production, an anti-dumping duty equal to this margin is then applied.(1)

The use of corresponding powers under provisions of the former Anti-dumping Act(2) resulted in provisional dumping penalties being imposed, with effect from February 26, 1979, on waterproof rubber footwear and snowmobile boots originating in, or exported from, Czechoslovakia, Poland, the Republic of Korea (a GPT beneficiary), and Taiwan.(3) The investigations undertaken by the Department of National Revenue leading up to this action were initiated as a result of complaints filed by The Acton Rubber Limited (a subsidiary of Alfred Lambert Inc.,), Kaufman Footwear (Division of William H. Kaufman Inc.,) and The Miner Company Ltd., with respect to imports of the subject goods into Canada during the period August 1, 1977 to February 28, 1978.

Consequent upon the issue of this preliminary determination of dumping by the Deputy Minister of National Revenue for Customs and Excise, an inquiry into the matter was conducted by the Anti-dumping Tribunal, whose finding, issued on May 25, 1979, was:

> that the dumping of the above-mentioned goods from Czechoslovakia, Poland, the Republic of Korea and Taiwan, but excluding
> i) snowmobile boots;
> ii) rubber-bottom, leather top boots; and

(1) Special Import Measures Act, sections 2,3,15-29.
(2) Especially sections 9-11.
(3) See Appendix II, infra, pp. 72-3, 75.

iii) safety footwear that is specially designed to protect the wearer from injury and which incorporates special features such as safety box toes, steel toes, steel safety soles, non-slip soles or specially compounded rubber impervious to acids and other chemicals,

has caused, is causing and is likely to cause material injury to the production in Canada of like goods.(1)

In response to this finding, new ministerial prescriptions, specifying the basis for the determination of "normal values" (and hence, for the assessment of anti-dumping duties) in respect of rubber footwear originating in, or exported from, the four aforementioned countries were introduced on December 21, 1979, to be reissued in a revised form on November 29, 1982.(2)

The revisions followed further anti-dumping actions in respect of waterproof rubber footwear - this time excluding snowmobile boots, rubber bottom-leather top boots and safety footwear, and directed at imports from Hong Kong, Malaysia, Yugoslavia and the People's Republic of China (all GPT beneficiaries). Provisional determinations of dumping with respect to imports of the pertinent goods between September 1, 1980 and May 31, 1981, were issued by the Deputy Minister of National Revenue for Customs and Excise on January 26, 1982,(3) while a finding of "likely ... material injury" was reported by the Anti-dumping Tribunal on April 23, 1982.(4) The Canadian complainants in this instance were as before, with the addition of Vimod Rubber Company, a new entrant in 1979 to the manufacture of rubber footwear.

On November 30, 1984, immediately prior to the coming into force of the Special Import Measures Act, "ministerial specifications" were promulgated, replacing the ministerial prescriptions then in effect in connection with the imposition of anti-dumping duties on rubber footwear. In the case of goods from four of the five Asian countries - viz: the Republic of Korea, Taiwan, Hong Kong and Malaysia - normal values (determined under section 15 or 19 of the Special Import Measures Act) were specified in terms of the export

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(1) Finding of the Anti-dumping Tribunal in Inquiry No. ADT-4-79 under section 16 of the Anti-dumping Act.

(2) See Appendix II, *infra*, pp. 72-6.

(3) See Appendix II, *infra*, pp. 77-9.

(4) Finding of the Anti-dumping Tribunal in Inquiry No. ADT-2-82 under section 16 of the Anti-dumping Act.

price advanced by an amount ranging between 10 and 31 per cent thereof. In the case of the four state-trading countries - viz: Czechoslovakia, Poland, Yugoslavia and the People's Republic of China - the ministerial specifications stated that (applying section 20 of the aforementioned Act) normal values were to be based, in order of preference, upon: the normal value of similar goods from Malaysia, adjusted to reflect differences in terms and conditions of sale; the normal value of similar goods from the Republic of Korea or Taiwan; or the export price advanced by an amount ranging between 19 and 96 per cent.(1)

Other Tariff Board Inquiries

In addition to forming the subject matter of the inquiries referred to above, rubber footwear has also figured in two other Tariff Board investigations. In the case of one of these - Reference No. 57(2) - there was an obvious inconsistency between the terms of reference, as specified by the Minister of Finance in his letter to the Chairman of the Board, and the concerns of the rubber footwear manufacturers, as stated in supporting documentation. Whereas, in his letter, dated April 18, 1934, the Minister referred to "an application by The Canadian Rubber Footwear Association for an increase in duties under the Intermediate and General Tariffs on footwear with canvas uppers and fibre soles" (classifiable under tariff item 611a), a reading of the relevant association memorandum reveals an even more pressing concern to be the duty-free concession granted to rubber boots and shoes of BP origin under tariff item 617, consequent upon the Ottawa Imperial Conference and Trade Agreements of 1932.

In this connection, imports from the Straits Settlements (Malay States) were seen as constituting a major threat. Almost 567,000 pairs of rubber boots and shoes valued at $174,000 were stated to have entered Canada from this source in 1933, these representing 84 per cent of total Canadian imports of such goods by volume and 77 per cent by value. Total imports of

(1) See Appendix II, <u>infra</u>, pp. 79-81.
(2) The background material relating to this reference will be found in Public Archives of Canada, Call Number RG 79, Vol. 14. Reference No. 57.

rubber footwear were shown as having a value of approximately two-and-a-half times that of boots and shoes with canvas uppers (also obtained mainly from the Straits Settlements).

Accordingly, one of the major courses of action sought by The Canadian Rubber Footwear Association was "direct action by the Canadian Parliament towards removal of item 617 from Schedule E of the Empire Trade Agreement". There is no evidence that this possibility was ever given serious official consideration; certainly, the economic and political difficulties in the way of its accomplishment would have been considerable. Thus, in correspondence between Tariff Board members and counsel for The Canadian Rubber Footwear Association, it was reiterated that the Board had "no jurisdiction to make any investigation under tariff item 617" and the association was advised to "restrict its case to the terms of reference" provided by the Minister. It was further advised that a submission limited to footwear with canvas uppers and rubber or fibre soles could be accommodated as part of forthcoming proceedings in connection with Reference No. 11, which had been initiated in response to requests by British shoe manufacturers for a reduction in BP duties on leather footwear imported under tariff item 611a.(1)

In the event, the association decided not to proceed on the basis suggested, and a hearing on its application was "postponed indefinitely". Subsequently, in July 1935, the application was withdrawn and the reference was terminated.

Almost as ill-defined in some ways was Reference No. 121, which, seemingly on account of indecisions or misunderstandings over the terms of reference, resulted in not one, but three, reports.(2) In the original

(1) For further on this inquiry, see Reference No. 11. Boots and Shoes (1935).

(2) Reference No. 121. Report by the Tariff Board Relative to the Investigation Ordered by the Minister of Finance respecting the Production, Consumption, Marketing, Imports and Exports of Waterproof Footwear and Rubber-Soled Canvas Footwear (March, 1957); Waterproof and Rubber-Soled Canvas Footwear. Supplementary Report (November, 1957); Report by the Tariff Board Relative to the Investigation Ordered by the Minister of Finance, arising out of various requests made to him by the producers in Canada of Waterproof Footwear and Rubber-Soled Canvas Footwear (July, 1958).

letter of reference, dated October 29, 1956, the Minister noted that representations had been received to the effect that waterproof footwear and rubber-soled canvas footwear were "being imported into Canada in such increased quantities and under such conditions as to cause or threaten serious injury to Canadian producers" of rubber footwear.[1] These had asked for an ad valorem duty to be imposed under the BP Tariff on rubber boots and shoes and for the authority provided by section 38 of the Customs Act to be used to fix values for duty in respect of both canvas and waterproof footwear.[2] The Board was requested by the Minister to provide "the most complete information that can be obtained regarding the production, consumption, marketing, imports and exports of waterproof footwear and rubber-soled canvas footwear, and regarding the effects on Canadian producers and consumers of the operation of the Canadian tariff relating thereto".[3]

In making its report to the Minister, the Board noted that in the early 1950's shipments of rubber boots and shoes from overseas had "increased substantially", reaching a total of 1,152,000 pairs in 1955, valued at

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(1) At this time, rubber footwear was produced in Canada by six firms in seven plants. In the province of Quebec, plants were operated by: The Acton Rubber Limited, Acton Vale; The British Rubber Company Limited, Lachine; Dominion Rubber Company Limited, St. Jerome; and The Miner Rubber Company, Granby. In the province of Ontario, plants were operated by: Bata Shoe Company of Canada Limited, Batawa; Dominion Rubber Company Limited, Kitchener; and Kaufman Rubber Company Limited, Kitchener. However, Bata Shoe Company, which also operated exporting units in England and India, "was not a party to the application for revision of the tariff affecting rubber footwear" (Reference No. 121 (March, 1957), pp. 5-6, 9).

(2) Section 38 of the Customs Act provided: "(1) Where at any time it appears to the satisfaction of the Governor in Council on a report from the Minister that goods of any kind not entitled to entry under the British Preferential tariff or any lower tariff are being imported into Canada either on sale or on consignment, under such conditions as prejudicially or injuriously to affect the interests of Canadian producers or manufacturers, the Governor in Council may authorize the Minister to fix the value for duty of any class or kind of such goods, and notwithstanding any other provision of this Act, the value so fixed shall be deemed to be the fair market value of such goods. (2) The value for duty shall be deemed to have been duly fixed by the Minister pursuant to subsection (1) if the same is fixed on a basis or by a method prescribed by the Minister." (Revised Statutes of Canada, 1952, Ch. 58, p. 2093).

(3) Reference No. 121 (March, 1957), pp. 5-6.

$1,412,000. The main sources of these imported goods were the United Kingdom (which accounted for 65 per cent of all such imports, by value), Hong Kong (12 per cent) and Czechoslovakia (11 per cent). The imported products, particularly those from the United Kingdom, were thought "to compare very favourably with corresponding domestic lines in appearance, quality and workmanship". However, it was also found that the domestic industry had "developed certain types of footwear for special industrial applications which might not be available from non-Canadian sources".(1)

With respect to the position of the domestic industry, the Board concluded that "despite imports, and despite growing and intensive competition, within the 'waterproof' field, of plastic footwear - nearly all of it produced in Canadian rubber footwear factories - Canadian production of waterproof rubber footwear, in terms of pairs, has changed very little in recent years". Indeed, in 1955, domestic producers still retained 94 per cent of the dollar market for rubber footwear. The Board commented: "Few Canadian industries have anything approaching this proportion of the domestic market in their particular products."(2)

Subsequent to the submission of this factual report, the Board was requested by the Minister of Finance to make a further report in the same matter and to include therein "recommendations ... regarding the retention or modification of the present duties in respect of waterproof footwear and rubber-soled canvas footwear". At the suggestion of the Minister, no public hearing was held by the Board in connection with the preparation of this supplementary report, although certain of the statistical data were updated.(3)

In its response to the Minister, the Board stated that it had "directed its attention particularly to the request by the applicant domestic producers" for a customs duty of 15 p.c. ad valorem to be imposed on rubber

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(1) Ibid., pp. 17, 21, 35, 38, 39.
(2) Ibid., pp. 17, 34.
(3) Reference No. 121 (November, 1957), pp. 3, 4, 7.

footwear imported under the British Preferential Tariff appertaining to tariff item 617; in so doing, it had not been persuaded, on the basis of the information available, that it should recommend the imposition of duties, as requested.[1]

With respect to the second main element of the manufacturers' request - concerning the fixation of the values for duty on waterproof rubber footwear and rubber-soled canvas footwear not entitled to enter under the British Preferential Tariff[2] - the Board gave its opinion that this did not come within the terms of reference as supplied by the Minister.[3]

However, while this supplementary report was still in the course of publication, the applicant companies again appealed to the Board, requesting tariff changes in respect of waterproof rubber footwear (tariff item 617) imported under <u>any</u> tariff, as well as changes in respect of canvas footwear of various types and kinds (tariff item 611a(2)) imported under any tariff. There followed a series of public hearings, at which representations were made by the Canadian rubber footwear manufacturers and a number of other interested parties.

Following this further, more comprehensive, inquiry, the Board again reported that it saw "no sound reason" for recommending any change in the free entry accorded, under the British Preferential Tariff, to imports of waterproof rubber footwear, under tariff item 617. Equally, it was "not persuaded on the evidence submitted that it would be warranted" in recommending the specific duties requested by the industry in respect of (a) rubber boots and shoes imported under tariffs other than the British Preferential Tariff or (b) rubber-soled canvas footwear imported under any tariff. Further, it was "not prepared" to recommend any changes in wording or rates of duty in respect of either of tariff items 611a(2) or 617.[4]

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(1) <u>Ibid.</u>, p. 13.
(2) See <u>supra</u>, p. 15.
(3) <u>Ibid.</u>, p. 5.
(4) <u>Reference No. 121</u> (July, 1958), pp. ix, xviii.

CHAPTER 2. CHARACTERISTICS OF THE MANUFACTURE AND DISTRIBUTION OF RUBBER FOOTWEAR

The Products Under Review

The products which form the subject matter of this inquiry are not confined to footwear manufactured solely from natural or synthetic rubber (apart from liners, linings and fasteners). Also included are various types of footwear made only in part of rubber, the remainder being some other material, such as leather or nylon. However, shoes with canvas or fabric uppers and rubber or plastic soles - variously described as "utility footwear" "athletic shoes", "tennis shoes" or "sneakers" - are considered to lie outside the ambit of study. While such goods have long been produced in the plants of rubber footwear manufacturers and are classified as rubber footwear in the customs tariff schedules of certain other countries, including the United States, for Canadian tariff purposes they have been treated as discrete products quite separate from the goods at issue.

The goods which have been referred to the Board for study encompass considerable differences in product sophistication and manufacturing complexity. Simplest to produce and cheapest to buy are sandals or zoris featuring a flat sole with no distinct heel and an unlined v-shaped thong or cross-strap that goes over the instep of the foot. Clearly, such goods - used mainly for beach or shower wear - can be produced without a highly skilled labour force and without investment in costly equipment.

Requiring more by way of production expertise and/or fixed capital investment are those products which comprise the traditional lines of output of the rubber footwear industry. Intended primarily as a means of providing protection against wet or slushy conditions underfoot, these products include a variety of galoshes and stretchable rubbers worn over the shoe - in some cases lined, or with zippers, buckles or other fastenings - and a range of all-rubber boots and waders constructed to various heights, with the 12" and 15" heights being the most popular for men. Included in this all-rubber category are the heavy "red sole" knee boots for men and boys, often worn in

uncongenial work situations, and the "city" boots made for women and children. In general, and by long tradition, products falling into the above categories tend to be austere and highly functional, although some of the city boots made for present-day use are of more than one colour and sport decorative designs.

At a further remove from a manufacturing standpoint, and with a greater emphasis on styling, fit and comfort, a range of rubber-bottomed waterproof footwear has been developed, with tops of leather, nylon or fabric, and with linings designed to provide a high measure of insulation against the cold. Major sub-categories of such footwear include fashionable rubber bottom-leather top boots for winter wear by the urban commuter and nylon-topped snowmobile boots for the active outdoorsman. According to the Canadian manufacturers, much of this footwear has been specifically developed for use in Canadian environmental conditions. Examples include men's insulated boots with linings of cellular material for Artic wear by military and civilian personnel, and men's vapour-barrier boots, heavily insulated and lined with rubber on the inside to prevent the insulation from becoming wet, developed for naval use at the request of the Department of National Defence.[1]

With industrial usage more expressly in mind, a range of other special-purpose footwear has been developed to protect the wearer against accident in hazardous work situations. Special features which may be incorporated in such "safety footwear" include safety box toes, steel toes, steel safety soles, non-slip soles, or specially compounded rubber, impervious to acids and other chemicals. Industries with special needs for safety footwear include forestry, fishing, mining, construction, chemicals and oil exploration. Thus, a lumberman may wear leather-top boots constructed with a hard rubber toe and built-in iron mesh to deflect axe strokes, while a logger may wear boots with steel spikes and a safety toe. Boots specially designed for mining purposes will normally have a hard rubber safety toe and a protective guard across the instep. In the oil industry and in dairies workers may wear boots made of neoprene rubber, which is oil-resistant and impervious to fats or any grease product.(2)

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(1) Reference No. 121 (March, 1957), pp. 9-10.

(2) Ibid.

In Canada, some, but not all, safety footwear is produced to meet safety standards established by the Canadian Standards Association (CSA) or by a particular group within an industry. In the latter case, the CSA standards may be taken as a starting point. Thus, it is understood that Ontario Hydro "start with CSA standards and add additional requirements to cover electrical hazards". In discussing this subject, Canadian rubber footwear manufacturers have been careful to differentiate between "safety footwear" which meets CSA standards and other footwear with safety or protective "features". Imports of safety footwear from GPT sources have generally fallen into the latter category, although it is understood that some of the footwear now being produced in South Korea conforms to CSA standards.(1)

Manufacturing Processes

The processes involved in the production of rubber footwear may be briefly described. In the traditional lay-up process, a rubber compound is prepared by mixing; the compound is calendered into sheeting; the sheeting, with or without a textile lining, is die-cut into components; the components are assembled (laid up) with rubber cement on a conveyor-borne last; and the assembled boot or shoe is vulcanized.

Since the lay-up process is relatively labour-intensive, it is particularly well suited for use in low-wage economies such as those whose products are generally admissible under the General Preferential Tariff. However, the process is also capable of producing a wide range of rubber footwear (including speciality items) and its use is economically advantageous for short production runs; for these reasons, it remains a common method of manufacture in most producing countries, including Canada.

In recent years, partly encouraged by the development of new synthetic materials, technical advances have made it possible to manufacture rubber footwear by injection moulding and compression moulding processes, as

(1) Anti-dumping Tribunal, Reference No. ADT-2-82. Public Hearing, March 15, 1982, Tape 4; Tariff Board, Reference No. 161.1. Transcript of Public Hearing, May 29, 1985, pp. 49-51.

opposed to the lay-up method of production. (Another form of moulding - viz: slush moulding - has also been developed as a means of producing waterproof vinyl footwear - not referred to the Board for study). In the injection moulding process, a hot thermoplastic rubber compound is injected under high pressure into a fabric-lined mould; when cooled, the product is removed from the mould, trimmed and - unless intended to serve as a bottom - packed for shipment. In the compression moulding process, the various pieces of rubber (which in the lay-up process are laid on around a metal last to make a boot, then vulcanized) are put into a mould where they are simultaneously formed and vulcanized by the application of heat and pressure. Since the manufacture of moulded footwear involves considerable capital expenditure on moulds (as well as on moulding machinery), substantial production for each style is necessary in order to justify the amount spent on individual moulds. A relatively high volume of overall production is required so as to minimize capital costs per unit of output.

Given that the above requirements can be met, a cost advantage would appear to attach, in Canadian economic conditions, to the production of moulded rubber footwear, as compared to footwear made by the lay-up method. Moreover, the former may, in some instances, be lighter in weight,(1) and, being made in one piece, is also less likely to let in water than the traditional cemented product. However, for the economic and technical reasons noted above, the moulding process, as applied to rubber footwear, imposes severe limits in regard to the possible variety of styles, colour combinations and usage of materials and, particularly at the higher end of the product range, these factors may well be decisive considerations for the consumer and potential sales.

General Aspects of Costs

The costs of producing rubber footwear vary considerably, depending upon the location of production, the type of process used, the volume of output, and the characteristics of the footwear in question. In Canada, in

(1) The Board was informed that this is so in the case of rubber bottoms made by the compression moulding process (Transcript, p. 27).

1985, production costs may range from a few dollars for a pair of child's city boots to many times that amount for top-of-the-line snowmobile boots or speciality items.

With respect to the different components of cost, figures supplied by the domestic producers show factory labour costs to be much higher, in both absolute and proportionate terms, in plants using lay-up processes than in those employing moulding techniques. Not surprisingly, such differences are most marked in the case of basic all-rubber footwear, where moulding processes call for minimal handling by the work force. Thus, in a lay-up establishment, the total costs of producing all-rubber footwear might amount to \$10-\$25, of which factory labour costs (including indirect costs and fringe benefits) account for \$4-\$6, while in a moulding plant such products might cost \$3-\$12 to produce and have factory labour costs of \$0.50-\$1.

For the moulder, by far the most significant element of cost in respect of all categories of rubber footwear is that of materials, which generally account for between one-half and three-quarters of all manufacturing outlays. This proportion tends to be highest in respect of men's (large size) boots, due to the greater amount of material required, and in regard to industrial boots incorporating special features. Material costs can also be relatively high in the manufacture of some products by the lay-up process. Indeed, in the production of the more expensive types of footwear - notably, in the manufacture of boots with leather or nylon tops and felt linings - expenditures on materials might outweigh those on factory labour.

In general, given a satisfactory level of output, capital costs do not constitute a major element in the overall cost of producing rubber footwear, and, even in a moulding establishment, do not normally exceed the costs incurred on factory labour. Exceptions may occur when comparatively expensive moulds have to be written off - over a period of perhaps three years - against low volume output.

With respect to costs incurred outside the factory door, freight charges are obviously affected by the distance between the manufacturing plant and point of final delivery. However, as would seem to apply in the Canadian situation, freight costs may be borne, in whole or in part, by the customer.

Marketing costs, including outlays on advertising and the salaries and commissions of salesmen, depend inter alia upon the particular marketing techniques adopted, the organizational character and geographical distribution of the purchasing establishments, and the size of the sales force. One domestic producer of rubber footwear informed the Board that marketing costs averaged 6.3 per cent of sales, but it is not known to what extent a figure of this magnitude should be regarded as representative.

General Aspects of Marketing and Pricing

As with most types of footwear, that made from rubber is retailed primarily through speciality shops, department stores and mass merchandising outlets, and, to a lesser extent, through mail order houses, supermarkets and drug stores. The channels of distribution involve direct sales by producers to retailers, the operation of vertically-integrated retail shoe outlets, and use of manufacturers' agents and jobbers.

Producers generally market their goods by taking orders on a "placing" or "sorting" basis. Placing orders (i.e., orders usually taken between January and May for late summer/early fall shipment) permit major production schedules to be established. Sorting orders (i.e. orders for the purpose of replenishing lines) are usually for smaller volumes and for items which can be supplied from stock. In this connection it should be noted that unexpected increases in demand, such as might occur as a result of particularly severe weather conditions, are likely to benefit domestic producers rather than importers because of their generally shorter delivery times.

To facilitate production planning, manufacturers of rubber footwear may offer "early order discounts". Those offered by Canadian producers in the recent past have generally ranged between 3 per cent and 10 per cent of list prices. In addition, and more significant in some instances, are graduated price discounts offered in respect of volume purchases and/or to specific categories of customer. In the case of the most-favoured mass merchandisers, such discounts may represent a saving of up to 25 per cent.

Profile of Canadian Producers

The Canadian rubber footwear industry is one of the country's oldest manufacturing activities, having been in existence since the mid-nineteenth century. The industry has undergone a long drawn-out process of contraction since the Second World War, and now consists of four principal producers - viz: Kaufman Footwear, The Acton Rubber Ltd., Genfoot Inc., and Vimod Rubber Company.

The oldest of these four companies is Kaufman Footwear, which began producing waterproof footwear in 1908. It has since diversified into the production of plastic and leather footwear and rubber clothing. A wide range of rubber footwear is currently produced by the company, with rubber bottom-leather top boots accounting for a major part of the volume and value of output. Most of Kaufman's rubber boots are produced by the traditional lay-up process, although since 1980 the company has been using compression moulding for the production of an increasing proportion of its rubber bottoms. Vinyl footwear is produced by slush moulding. At the end of May, 1985, the company employed approximately 700 people in the manufacture of rubber and plastic footwear, out of a total labour force of approximately 1,350. Kaufman's Canadian production and major warehouse facilities are located in Kitchener, Ont., and a warehouse is also maintained in Montreal to supply Quebec and the Maritimes. In addition, the company has a production facility in Batavia, New York, to which it exports rubber bottoms for "topping". This facility finishes approximately one-half of the footwear sold by the company in the United States market. The majority of Kaufman's domestic sales have always

been direct to retailers, but some sales, particularly of industrial footwear, are made to wholesalers or directly to industrial users. The company sells in every province of Canada through its own sales force of 35 salesmen.

The Acton Rubber Ltd., a wholly-owned subsidiary of Alfred Lambert Inc. of Montreal, has been producing waterproof rubber footwear for over half a century in its manufacturing plant at Acton Vale, Que., some 50 miles east of Montreal. Warehouse facilities are located at Acton Vale and Montreal. Like Kaufman, Acton is an integrated producer of the subject goods and manufactures all the main lines of rubber footwear, including many speciality items; it also produces rubber gloves. Much of its production is at the higher end of the quality range. Almost all of the company's products are made by the lay-up process, although compression moulding has recently been introduced by the firm and is being applied on a limited scale. With the exception of government contracts, which have accounted for a sizable proportion of recent business, all of Acton's marketing and distribution functions are performed by Alfred Lambert Inc., which deploys a sales force of some 28 people selling directly to more than 5,000 accounts across Canada. A small proportion of Acton's production is marketed through the 180 family footwear stores operating as Trans-Canada Shoe Limited and Canmart Ltd., which form part of the Lambert group. The Acton Rubber Ltd. is the principal survivor of the traditional rubber footwear industry in Canada, and accounts for the bulk of the domestic production of overshoes. At the end of May, 1985 it provided employment for 300 people.

The origins of Genfoot Inc. date back to 1915, when William Cook, Sr., the founder, started out with a retail shoe store in the Maritimes. Subsequent expansion took the business into the manufacturing, wholesaling and importing of various categories of footwear, with the main locus of operations shifting further west. The company's head office was located in Montreal, while plants for the manufacture of footwear were acquired in Contrecoeur, Que. (in 1931) and Grand'Mère, Que. (in 1977). Up to 1979 the company was one of the largest importers of rubber footwear in Canada, and relied upon rubber bottoms imported from the Far East for its production of winter utility

boots. A decision to reduce this dependence resulted in the installation of injection moulds and moulding equipment in the Contrecoeur plant and a widening in the range of rubber footwear manufactured by the company. Currently, Genfoot produces a variety of moderately-priced rubber footwear, including rubber bottom-leather top boots, snowmobile boots and all-rubber products. It no longer imports finished rubber footwear, and, like Kaufman, it exports a high proportion of its output of rubber bottom-leather top boots. The company maintains showrooms in Canada and the United States, and sells directly to retail chains, department stores, independent retail shoe establishments and wholesalers.

The fourth domestic producer, Vimod Rubber Company, is owned by a British-based firm, Chamberlain Phipps Limited, and by its Canadian President, Mr. Peter Hubner. Vimod is a division of Vinaflex Canada Limited, which began production of injection moulded unit soles for the rubber footwear industry in 1972. The production of entire boots by injection moulding represented a natural progression for the firm, which it effected in 1979, using technology developed in Italy and Germany and synthetic materials developed in the United States. Both thermoplastic rubber footwear and waterproof vinyl footwear are produced by the injection moulding process. Vimod's production and warehouse facilities are located in Hamilton, Ontario. The manufacturing works comprise a tool and die plant for the production of moulds; a compound plant for the development of formulations and manufacture of rubber compounds; and a moulding plant for the production of finished items. Vimod's range of output is narrower than that of the other domestic rubber footwear manufacturers, and is largely concentrated on the production of city rainboots for women, girls and children, and red sole knee boots for men, youths and boys. Industrial safety boots, incorporating steel toes and steel mid-soles, are produced in smaller quantities, while the firm has also recently entered into the manufacture of rubber bottom-leather top boots. The company competes mainly at the high-volume end of the footwear market and has less direct sales representation than the other domestic producers.

CHAPTER 3. SUBMISSIONS TO THE BOARD

Submissions with respect to the matter under review were addressed to the Board by the four Canadian producers of rubber footwear, both jointly and individually, and by parties representing the interests of consumers, importers and exporters of the relevant goods.

Canadian Producers of Rubber Footwear

In their joint submission, the domestic producers briefly reviewed the history of the General Preferential Tariff as applied to tariff item 61700-1, noting the short time in which it had remained in effect prior to withdrawal. The Board was reminded that it had recommended against the reinstatement of the GPT with respect to rubber footwear in 1982. Although the Board had placed no time limit on its recommendation, the Governor in Council had extended the GPT withdrawal only to December 31, 1985.

The manufacturers submitted that increases in domestic production achieved during the previous three years represented nothing more than a partial recovery from a severe recession. However, "some measure of success" had been achieved during this period in displacing imports from GPT sources - most notably, China - with moulded Canadian footwear. Nevertheless, reflecting the appreciation of the Canadian dollar against most foreign currencies, "price competition with imports continues with undiminished intensity". Although exports had increased significantly since 1982, the United States tariff on rubber footwear, "which in most cases is 37.5 p.c.",[1] has acted as a constraining influence.

(1) However, footwear made partially of rubber and partially of leather may be variously classified under TSUS items 700.35, 700.45 and 700.95, with duty rates (as at October, 1984) of 8.5 p.c., 10 p.c., and 12.5 p.c. respectively, depending upon the relative values of the component materials (United States International Trade Commission, Summary of Trade and Tariff Information. Prepared in Terms of the Tariff Schedules of the United States. Rubber Footwear. TSUS Items 700.51-700.54 and 700.57-700.71. USITC Publication 841. Control No. 7-1-11 (Second Supp.), October, 1984 p. 3).

The domestic producers concluded that should the General Preferential Tariff be applied, the Canadian rubber footwear industry "would face unlimited competition" from duty-free imports. Thereby, "the industry would suffer loss of sales, market share, production, profit and employment". Accordingly, the Board was urged to recommend that "the benefits of the GPT be withdrawn from tariff item 61700-1, and that these benefits be withdrawn permanently". This request was repeated in the individual submissions of all four Canadian producers.

Kaufman Footwear

In making his presentation, the representative of Kaufman said that the firm's production of footwear manufactured by each of the processes which it utilizes - viz: lay-up, compression moulding, and slush moulding - would be adversely affected by reinstatement of the General Preferential Tariff, while all the 700 directly-related jobs "would be in jeopardy".

Respecting footwear made by the lay-up process, it was stated that for thirty years the company had been unable to compete with importers in the sale of high-volume lines to high-volume retailers; in consequence, it had decided to expand its product line into specialized types of footwear and also to concentrate upon supplying "those retailers and wholesalers who for volume, location or other reasons continued to purchase their requirements from domestic manufacturers". The special lines of output have included safety footwear for industrial use, which, it was said, comprise a "substantial proportion" of Kaufman's present sales. The Board was reminded that, unlike traditional rubber footwear products, these goods are not presently protected against low-cost imports by anti-dumping duties.

The company claimed that elimination of the 20 p.c. duty on GPT imports would cause a "significant decline" in its production of traditional rubber footwear, which would result in a heavier burden of fixed costs being borne by the speciality items. In consequence, the prices of the latter products would rise to the point where they became uncompetitive.

With respect to the company's production of compression moulded footwear - presently limited to rubber bottoms - it was considered likely that reinstatement of the GPT would encourage foreign manufacturers to produce complete rubber bottom-leather top boots for shipment to Canada. As a consequence, not only would present equipment stand idle, but the burden of its unrecovered cost would "seriously erode" the company's profitability from other lines and impede continuing development and diversification.

Further, since slush-moulded vinyl footwear is waterproof and in many respects interchangeable with rubber footwear, the reinstatement of the General Preferential Tariff would encourage importers of rubber footwear to "incorporate more style features" into their rubber products, thus resulting in "a shift in retail preference from slush moulded to imported footwear", to the detriment of the company's production of slush moulded footwear.

The Acton Rubber Ltd.

Acton Rubber claimed that it had succeeded in keeping its clientele mainly because of its broad range of products, its in-stock service, and its speciality items which are not available through importers. Business lost to importers had been mainly of big volume items. To improve productivity and open new markets, the company had made major investments in rubber processing equipment in 1981.

Based on a survey of rubber footwear sold by some of the major retailers (conducted by the company in May, 1985), Acton observed that imports are retailing at prices well below the corresponding retail prices of Acton products. In some cases the retail prices of imports were said to be even lower than the company's selling prices as a manufacturer. Thermoplastic products made by injection moulding, however, were competing successfully with imports "submitted to a normal rate of duty". Thus, for the fall of 1984, Trans-Canada Shoe Ltd., a retail chain owned by Acton's parent company, had ordered its supply of red sole boots from Vimod, since the price differential vis-à-vis Chinese boots (previously purchased by the chain) was "minimal".

However, since Trans-Canada "must remain competitive with the other retail chains", it would "reconsider importing rubber boots if the tariff is removed and/or products are dumped into the Canadian market".

Acton observed that its own mark-ups on boots especially subject to foreign competition (e.g., red sole boots) are much lower than its average mark-ups on models subject mainly to domestic competition. Due to these lower mark-ups, the company's financial results for the "rubber footwear section" are "unsatisfactory", and should the existing tariff be eliminated, the company would "be in a loss position and be forced to cease these operations".

Genfoot Inc.

Genfoot Inc. stated that its transformation from importer to producer had involved "considerable capital cost outlays" and would not have been undertaken without: (1) assurance that MFN tariffs would be maintained; (2) government counter-action against dumped imports; and (3) encouragement by the Canadian Industrial Renewal Board.

The company pointed out that the domestic rubber footwear industry has never had the benefit of footwear import quotas, and does not "enjoy the opportunity" of the protected U.S. market. The producers, although small in number, "have had to act quickly to modernize in order to maintain their competitiveness with new manufacturing procedures". However, any erosion of their markets by imports would result in expensive machinery lying idle.

Genfoot noted that importers or foreign exporters of rubber footwear have tended to deal only with large Canadian retailers, and it advised that if GPT rates were to be in effect, only these retailers would have the benefit of lower imported footwear prices. The small retailers, lacking effective access to the duty-free imports, would be placed at a comparative price disadvantage, "which would eliminate this customer group from the market". At the same time, due to declining sales, the domestic manufacturers would lack the volume of production necessary to service the small retail market segment at competitive prices.

With respect to its own operations, the company informed the Board that it is presently in the process of developing new attractive product lines; further experimentation, however, would be prevented if the GPT were to be reinstated.

Noting that imports of rubber footwear from Sri Lanka "are on the rise" and that "as duties are imposed on certain countries the sources change to non-tariff areas", Genfoot expressed its opposition to the duty-free entry of such goods under the BP Tariff. In the company's view, "since this is a limited market and since ... the volume items are basic and similar", one duty rate - namely the MFN rate - should be uniformly applied to imports from all countries. Price increases would be inhibited, "because the basic products in question are highly competitive amongst the Canadian producers".

Vimod Rubber Company

Vimod Rubber submitted that in the past five years it had established itself as a major supplier of waterproof rubber footwear. Large investments in machinery and moulds had allowed it "to produce high quality boots for both the utility and industrial markets". The design and purchase of a new set of red sole boot moulds in 1984 had increased the company's competitiveness in this volume field, enabling it to pick up new business from accounts that had previously relied upon imported boots. In order to remain competitive, however, the firm had been forced to accept a depressed margin of profit on this product range. Consequently, any reduction in the landed costs of competing imports would mean that this high volume category of utility footwear would be "lost" to the company.

With respect to other categories of footwear, Vimod reminded the Board that its range "also includes industrial quality boots with safety features certified by CSA", this being a category of goods that "receives no protection against dumped imports". Further, the products of a number of exporting countries, notably South Korea, have now been CSA certified, and these products "are competing for the Canadian market".

The company observed that in recent years some low-wage countries have begun to move away from the traditional lay-up production process to the injection moulding process, and it anticipated that "the future will bring competition in both processes from these sources". In conclusion, Vimod submitted that if it is to continue to hold its share of the Canadian market, the status quo "must be maintained"; and it represented that removal of the existing 20 p.c. tariff on imported rubber footwear would injure the company "irreparably".

Consumers' Association of Canada

The Consumers' Association of Canada (CAC) spoke from a position based upon a conception that the consumer interest is best served by the lowest possible prices and the widest possible selection of goods. However, as a result of the suspension of the GPT, "consumers pay higher prices due not only to the existence of the tariff, but also to the fact that the tariff drives up the price of domestic goods".

The association reminded the Board that domestic industry has the protection of the Special Import Measures Act in cases of dumped or subsidized goods. Accordingly, "Canada's obligations to the less-developed countries require that suspension of the GPT should occur only where serious injury can be proven" and where significant dislocation results from the substantially lower prices of imports sourced in GPT countries.

In the submission of CAC, injury cannot be proven on the basis of the "tests" recommended by the Minister in his letter of reference dated July 24, 1980 and set out by the Board in its Background Paper on Petitions for Safeguard Action (1984).(1) Thus, the available data indicate that imports overall have shown a declining level against domestic production. Imports of rubber footwear from GPT countries have been roughly stable as a proportion of total imports of rubber footwear, while their unit values have risen above

(1) See supra, pp. 2-3.

those from non-GPT sources. Referring to the data on unit values, the association observed: "Clearly, non-GPT sources are as much or more of a competitive source than GPT countries". Yet, "the test of injury requires, as the Board itself has recognized, that such injury 'must be due solely to goods imported under the GPT'". At the same time, the domestic industry has shown substantial growth in exports, indicating its ability to compete in the international arena despite protection faced in gaining access to markets in other countries.

The Board was reminded that the objective of the withdrawal of the GPT with respect to rubber footwear was to give the domestic industry an opportunity to adapt to the more competitive environment introduced by the original implementation of the General Preferential Tariff. Almost ten years had passed since the initial suspension of the GPT in 1975, in which time the Canadian rubber footwear manufacturing industry had been able to restructure its operations and become more competitive by the application of capital-intensive techniques such as injection moulding. These considerations and the "favourable" performance of the domestic industry in both the home and export markets "suggest that suspension of the tariff can no longer be justified".

Given the consumer cost of the continuation of the withdrawal of the GPT on rubber footwear, CAC submitted that the Board should deny the petitioner's request for further suspension.

Canadian Importers Association

The Footwear Import Committee of the Canadian Importers Association, submitted that the benefit of the General Preferential Tariff should be restored "as the Canadian producers appear to be fully competitive with the imports". The Association sought to support this contention with two priced samples of a woman's boot - one imported from Korea and the other produced by Vimod - which were said to have been "purchased recently at the retail level".[1] The importers' representative noted that two of the "most

(1) However, the comparability of the products and the validity of the price comparision were disputed by the Vimod representative (Transcript, pp. 171-3).

successful Canadian producers" - Vimod and Genfoot Inc. - produce PVC and rubber boots using modern and efficient injection moulding equipment, whereas the imported goods "are still made by the traditional methods which are labour intensive and comparatively inefficient".

Further, it was alleged, that "there are other Canadian producers who have chosen to concentrate their efforts in specialized production". For example, Acton had "decided to produce specialized, safety type boots which require CSA approval". These companies "are successful and are not being injured or threatened by imports". At the same time, imports of goods which are not being produced in Canada "are nonetheless being penalized".

Consequently, it was submitted that the restoration of the benefit of the GPT "would not seriously impact on the viability of the Canadian producers".

Embassy of the Republic of Korea

The Embassy of the Republic of Korea, representing the interests of Korean manufacturers and exporters of rubber footwear, sought the reinstatement of the GPT with respect to imports of rubber footwear from Korea.

The Embassy spokesman observed that, as a developing country, Korea attaches great importance to the General Preferential Tariff System and to the circumstances attaching to its introduction by developed countries such as Canada. Consequently, while understanding that there may be occasions when circumstances might lead to the temporary withdrawal of the GPT, the spokesman contended that, if the system is to operate in the manner originally intended, withdrawal with respect to any product should be the exception and not the rule and should be for a limited period only. Ten years would not appear to be "temporary" and should be long enough for the domestic industry to adjust. Korea would be most concerned if the current GPT suspension in regard to rubber footwear were to be extended.

The Board was informed that the footwear industry in Korea is highly labour-intensive and is regarded as an industry having a competitive advantage in world markets. Development has been mainly through exports. However, Korea imports all of its rubber material requirements, which adds to the cost of producing rubber footwear in Korea. In order to offset this higher production cost and be able to sell competitively abroad, Korea needs favourable tariff access to overseas markets. This was available under the General Preferential Tariff. Access to the Canadian market is important to the development of the rubber footwear industry in Korea and to trade relations between the two countries.

The Embassy spokesman noted that Korea is Canada's seventh largest trading partner, while Canada is also Korea's seventh largest export market. The Korean market for Canada's abundant natural resources and sophisticated technology is extensive and growing. By the same token, Korean exporters can provide Canada with many of the labour-intensive consumer goods such as textiles and footwear which the Canadian consumer requires. This mutually beneficial relationship is well served by Canada's GPT scheme.

Accordingly, it was submitted that reinstatement of the General Preferential Tariff with respect to rubber footwear would be a positive step in the development of Canada's trade with developing countries such as Korea, whereas a continuation of the current withdrawal "would bring into question the dedication of Canada to the GPT principle".

<u>Griffith Saddlery and Leather Ltd.</u>

A submission was made on behalf of Griffith Saddlery and Leather Ltd., Stratford, Ont., for rubber riding boots to be allowed free entry under the General Preferential Tariff. It was represented that rubber riding boots are not made in Canada, there being insufficient volume for a Canadian manufacturer to invest in the necessary tooling. Imports of these "form fitting" boots by Griffith Saddlery were put at approximately 2,200 pairs per year, the source of supply being Korea.

CHAPTER 4. ECONOMIC FRAMEWORK

Trends in Consumption of Footwear

Rubber is only one of several materials used in tne manufacture of footwear, the other principal materials being leather, textile fabrics and plastics. All of these compete with each other in certain footwear uses, although prior to the development of synthetic materials the lines of demarcation were more sharply drawn than they are today. Thus, rubber was used in the production of protective (waterproof) footwear; textile fabrics supplied uppers for rubber-soled "tennis" shoes and leather-soled slippers; while leather was made into boots and shoes for normal everyday work, casual or dress wear.

In recent decades these distinctions have tended to blur with the emergence and increasing popularity of footwear made from low-cost synthetic (plastics) materials, which were found to lend themselves readily to automatic processing operations. Together with rapid changes in life styles and fashions, the new forms of footwear, being comparatively inexpensive and attractive to the eye, have served to diminish the competitiveness, and decrease the relative importance of the traditional sectors of footwear production. These tendencies, which have affected all countries to a greater or lesser extent since the development of slush moulding in the late 1940's,[1] were already undermining the Canadian market for rubber footwear by the mid-1950's. Commenting, in 1957, on the speed of this development, the Board stated: "There was no production of plastic footwear in Canada in 1951; by 1956, output was well in excess of three million pairs. It would appear that this very notable increase in production of plastic footwear has been at the expense of 'rubber' and 'part-rubber' waterproof footwear."[2] Table 1, below, sets out more recent developments in this regard.

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(1) Organization for Economic Co-operation and Development, The Footwear Industry. Structure and Governmental Policies (Paris, 1976), pp. 9-10, 14-16, 34-6.

(2) Reference No. 121 (November 1957), p. 7.

Table 1

Apparent Canadian Market for Footwear, 1974-84

Type of Footwear	Average 1974-76	1984	Average 1974-76	1984
	- No. of Pairs - ('000)		- Percentage -	
Rubber:	9,461	5,394	10.3	5.5
Waterproof	8,207	5,049	8.9	5.2
Sandals, beach type	1,255	345	1.4	0.4
Plastic:	4,511	7,971	4.9	8.2
Waterproof	1,583	951	1.7	1.0
Sandals	2,928	7,020	3.2	7.2
Other:(a)	77,856	84,268	84.8	86.3
Men's & Boys'	19,076	15,770	20.8	16.2
Women's & Girls'	25,765	33,363	28.1	34.2
Children's & Infants'	4,871	3,987	5.3	4.1
Gender Not Specified:				
Slippers & housewear	11,013	9,107	12.0	9.3
Special purpose	16,643	21,348	18.1	21.9
Sandals, beach type	488	695	0.5	0.7
Grand Total	91,828	97,633	100.0	100.0

(a) Includes plastic footwear not specified as such.

Source: Appendix Table I.

The shift away from the traditional materials in the past decade has been particularly marked in the case of sandals and women's fashion goods, for which demand - reflecting the growing purchasing power of women - has remained high. The declining popularity of rubber footwear is revealed by the halving of its share of the Canadian footwear market between 1974-76 (when it accounted for 10.3 per cent of domestic footwear consumption in terms of pairage) and 1984 (when the corresponding proportion was 5.5 per cent). It should be noted that this reduction was more than paralleled by an even greater decline in the share of rubber footwear imports in relation to total footwear imports, from 12.6 per cent in 1974-76 to 4.0 per cent in 1984 (see Table 2).

Table 2

Imports of Footwear, 1974-84

Type of Footwear	Average 1974-76	1984	Average 1974-76	1984
	- No. of Pairs - ('000)		- Percentage -	
Rubber	6,177	2,477	12.6	4.0
Plastic	3,024	7,236	6.2	11.8
Other	39,801	51,747	81.2	84.2
Total	49,002	61,460	100.0	100.0

Sources: Appendix Tables II and III.

Canadian Market for Rubber Footwear

As already noted, as part of a worldwide trend, the market for rubber footwear in Canada has declined dramatically in recent decades. Thus, only 5.4 million pairs of boots, shoes and sandals made wholly or in chief part of rubber found their way into the domestic market in 1984, compared with a corresponding annual average of 9.5 million pairs in 1974-76 (see Table 3). This represented a drop of 43 per cent. Since the decline in pairage was accompanied by a shift in the balance of expenditure away from the less expensive forms of rubber footwear, the reduction was significantly less - viz: 30 per cent - when expressed in terms of constant dollars (see Appendix Table V).

Table 3

Canadian Market for Rubber Footwear, 1974-84

	Average 1974-76	Average 1977-79	Average 1980-82	1983	1984
		- No. of Pairs ('000) -			
Industry shipments	3,705	3,934	3,127	3,515	4,019
Industry shipments to domestic market	3,284	2,808	2,334	2,666	2,929

	Average 1974-76	Average 1977-79	Average 1980-82	1983	1984
			- No. of Pairs ('000) -		
Imports - Total	6,177	4,544	2,895	2,596	2,477
GPT	3,587	2,294	1,620	1,548	1,235
Non-GPT	2,590	2,251	1,275	1,048	1,242
Total supply	9,883	8,478	6,022	6,111	6,496
Exports	421	1,126	793	849	1,090
Apparent domestic disappearance	9,462	7,352	5,229	5,229	5,406

Source: Appendix Table IV.

The declines in pairage with respect to the various categories of rubber footwear are set out in Table 4. Referring to the bottom line of this table, it will be seen that the largest proportionate decreases in domestic disappearance have been in respect of rubber sandals (probably in consequence of a switch to other types of sandals and to "jellies") and overshoes (a form of footwear which appears to be going rapidly out of fashion). The demand for snowmobile boots is shown as having contracted quite sharply, in response presumably, to a decline in the popularity of the associated activity. The market for all-rubber boots, particularly the all-black or red sole boot, also appears to have weakened significantly, although not to the same extent. Here, the main contributing factors could have been a decreased need for heavy protective footwear resulting from the continued gravitational movement of population towards the towns, and a growing preference on the part of consumers for more fashionable types of footwear made from other materials. Rubber bottom-leather top boots have provided one possible alternative. The market for such boots has remained comparatively stable since 1975, the small decline indicated in Table 4 being caused by an exceptionally buoyant year in 1974.

Table 4

Percentage Changes in Canadian Market for Rubber Footwear
Annual Average 1974/76-1984

	Rubber bottom-leather top boots	All-rubber boots	Over-shoes	Snow-mobile boots	Rubber sandals	All categories of rubber footwear
	- Percentage Change in No. of Pairs -					
Industry shipments	+64.6	+63.4	-46.3	-48.0	-	+8.5
Industry shipments to domestic market	-2.3	+63.1	-45.3	-48.0	-	-10.8
Imports: Total	-	-49.2	-83.9	-56.2	-72.5	-59.9
GPT	-	-57.3	-87.8	-67.4	-70.9	-65.6
Non-GPT	-	-38.3	-78.8	-32.0	-74.6	-52.0
Total supply	+64.6	-27.6	-61.8	-52.0	-72.5	-34.3
Exports	+165.0	+200.0	-99.9	*	-	+158.9
Apparent domestic disappearance	-2.3	-27.7	-61.6	-52.0	-72.5	-42.9

* Not meaningful.

Sources: Tariff Board industry surveys.

Employment and Utilization of Capacity

After declining by almost one-third between 1975 and the recession year of 1982, employment in the domestic industry now appears to be on an uptrend. In 1984 the total of direct and indirect employment reached 1560, compared with the figure of 1,120 reported for 1982. Recent years have also seen an improvement in factory utilization, with two of the four manufacturing companies working at 80-90 per cent of capacity in 1984, and two at 50-70 per cent of capacity (including the utilization of new plant facilities).

Domestic Production and Exports

Reference to changes in the overall volume of shipments (including exports) by the domestic industry, as set out in Table 4 (above), indicates an increase of 8.5 per cent in pairage shipped between 1974/76 (taking the annual average) and 1984. In regard to the different product categories, major increases (of 60-65 per cent) are shown to have occurred in the shipment of rubber bottom-leather top boots (including rubber bottoms only) and all-rubber boots, while substantial decreases (of 45-50 per cent) were recorded in respect of the shipment of overshoes and snowmobile boots. There was no reported production of rubber sandals.

It is evident that the industry's growth during the aforementioned period was associated with a marked expansion (of 159 per cent) in exports. The greater part of this expansion, in absolute terms, was in the export of rubber bottom-leather top boots and rubber bottoms, although a proportionately large increase also occurred in the export of all-rubber boots. In addition, a small volume of snowmobile boots was exported in 1984, whereas none had been shipped abroad in 1974-76. On the other hand, exports of overshoes, which in 1977 had totalled some 39,000 pairs, amounted to less than 500 pairs in 1984.

Table 5

Percentage Distribution of Value of Domestic Industry Shipments of Rubber Footwear, by Category of Product, 1974-84

Category of Footwear	Average 1974-76	Average 1977-79	Average 1980-82	1983	1984
			- Percentage -		
Rubber bottom-leather top boots[a]	41.5	55.6	59.1	55.6	59.0
All-rubber boots	25.5	18.3	19.8	26.8	24.1
Overshoes	22.4	14.5	11.9	11.1	9.9
Snowmobile boots	10.6	11.5	9.3	6.5	7.1
All categories of rubber footwear	100.0	100.0	100.0	100.0	100.0

(a) Including rubber bottoms for export.

Sources: Tariff Board industry surveys.

The industry's increased dependance upon the production and export of rubber bottom-leather top boots is underlined by the percentage distributions based on value of shipments, contained in Table 5. It will be seen that whereas this sector accounted for slightly over two-fifths of output, by value, in 1974-76, by 1980-82 the proportion had risen to almost three-fifths. Also impressive was the turnaround in the contribution of all-rubber boots following Vimod's entry into this production area in the late 1970's. By 1983 the traditional lines represented by this sector were again accounting for one-quarter of the value of the industry's shipments. No such revival, however, applied in the case of overshoes. Reflecting the progressive weakening in the market for these products, their share of the value of output had declined to less than one-tenth in 1984, compared to almost one-quarter ten years previously. Likewise, the share of snowmobile boots had declined since the peak production year of 1979.

Imports

In volume terms, imports of all broad categories of rubber footwear declined markedly (by almost 60 per cent) between 1974/76 and 1984, with the sharpest decreases (over 70 per cent) being recorded by overshoes and sandals (see Table 6).

Table 6

Volume of Imports of Rubber Footwear Under All Tariff Items, by Category of Product, 1974-84

Category of Footwear	Average 1974-76	Average 1977-79	Average 1980-82	1983	1984	Change 1974/76-1984
	- No. of Pairs ('000) -					- % -
Rubber bottom-leather top boots[(a)]	-	-	-	-	-	-
All-rubber boots	3,472	2,907	2,170	1,540	1,764	-49.2
Overshoes	967	477	135	153	156	-83.9
Snowmobile boots	484	390	151	250	212	-56.2
Sandals	1,255	770	438	653	345	-72.5
All categories of rubber footwear	6,177	4,544	2,895	2,596	2,477	-59.9

(a) No imports discernible from published data.
Source: Appendix Table VI.

In consequence of these changes, the share of all-rubber boots in the total value of relevant imports increased to over 80 per cent, while the share of overshoes declined to less than 5 per cent (see Table 7).

Table 7

Percentage Distribution of Value of Imports of Rubber Footwear Under All Tariff Items, by Category of Product, 1974-84

Category of Footwear	Average(a) 1974-76	Average 1977-79	Average 1980-82	1983	1984
			- Percentage -		
Rubber bottom-leather top boots(b)	-	-	-	-	-
All-rubber boots	65.7	71.9	84.4	77.1	80.6
Overshoes	18.6	9.6	3.8	4.0	4.8
Snowmobile boots	13.0	16.1	9.6	16.6	12.7
Sandals	2.7	2.4	2.2	2.3	1.8
All categories of rubber footwear	100.0	100.0	100.0	100.0	100.0

(a) Estimated.
(b) No imports discernible from published data.

Source: Statistics Canada, Imports by Tariff Item and Commodity Class (computer printout).

An examination of the geographical sources of rubber footwear imports during the aforementioned period, reveals imports from GPT beneficiary countries declining to a greater extent than imports in general. Thus, whereas in 1975 and 1976 between 60 and 70 per cent of all rubber footwear imports, whether measured in terms of volume or value, originated in GPT countries, by 1984 only half of such imports were being supplied by these sources (see Appendix Table IV and Table 8, below).

Table 8

Percentage Distribution of Volume and Value of Imports of Rubber Footwear Under All Tariff Items, by Country of Origin, 1977 and 1984

Country of Origin	Volume 1977	Volume 1984	Value 1977	Value 1984
	- Percentage -		- Percentage -	
GPT:				
Yugoslavia	-	0.6	-	0.6
Sri Lanka	-	4.2	-	3.4
Hong Kong	13.6	15.1	1.9	6.2
Malaysia	0.2	5.1	0.2	5.8
China	-	2.0	-	1.2
South Korea	41.9	21.7	56.2	33.0
Other GPT	0.4	1.1	0.4	0.1
Total GPT	56.1	49.9	58.7	50.3
Non-GPT:				
Czechoslovakia	13.0	18.5	13.6	19.1
Poland	12.3	-	9.3	-
Taiwan	15.6	18.4	11.9	15.0
Other Non-GPT	3.1	13.2	6.5	15.6
Total Non-GPT	43.9	50.1	41.3	49.7
Grand Total	100.0	100.0	100.0	100.0

Source: Statistics Canada, Imports by Tariff Item and Commodity Class (computer printout).

On a country basis, South Korea remained the largest single exporter of rubber footwear to Canada in 1984, but with a greatly reduced percentage compared with earlier years. In 1984, South Korea accounted for approximately one-fifth of the volume and one-third of the value of all rubber footwear imports. Other significant exporters included Czechoslovakia, Taiwan (both non-GPT countries) and Hong Kong (shipping mainly lower-priced overshoes and sandals). Malaysia and Sri Lanka, whose goods (unless dumped)(1) are admissible free of duty under the BP Tariff, together contributed somewhat less than one-tenth of total relevant imports in 1984.

(1) See *supra*, pp. 12-13.

Key Ratios

Over the years imports of rubber footwear have accounted for a decreasing share of the domestic market. In 1984, imports from all sources accounted for 24.5 per cent of domestic consumption in terms of value, compared to 32.4 per cent in 1974-76 (see Table 9).

Since 1976 there has also been a decline in the relative share of the home market supplied by imports from GPT sources. In 1984 this share, with respect to all categories of rubber footwear, amounted to slightly over 12 per cent. In the case of overshoes, seemingly the weakest of the product sectors in terms of market stability, GPT products accounted for 4 per cent.

Over the period 1974-84 as a whole, the domestic industry continued to supply an increasing share of the home market, while exporting a substantial proportion of its output. Since 1976, exports have generally amounted to between 30 and 45 per cent, by value, of total shipments.

Reflecting the relatively high average price of exports vis-à-vis imports, their total value has significantly exceeded that of imports in every year since 1976, in spite of the much higher volume of imports (see Appendix Table IV). In 1982 the value of exports of rubber footwear was more than double that of imports.

Relative Prices

Manufactured goods with similar broad descriptions may differ significantly in quality, style, size or ancillary features - and hence, in price. Price differences may also result from differences in the volume of goods purchased, level of trade, month of transaction or terms of payment. Evidence before the Board has indicated that the bulk of the rubber footwear imported from GPT sources has been of basic standard quality and has been supplied to mass merchandisers at volume discount prices. Accordingly, in making comparisons between the prices of domestically-produced and imported

Table 9

Value of Rubber Footwear: Relationships Between Imports, Domestic Disappearance, Domestic Shipments and Exports Average 1974-76 and 1984

	Rubber bottom-leather top boots		All-rubber boots		Overshoes		Snowmobile boots		Sandals		All categories of rubber footwear	
	Average 1974-76	1984	Average 1974-76	1984	Average 1974-76	1984	Average 1974-76	1984	Average 1974-76	1984	Average 1974-76	1984
Total imports as % of domestic disappearance	-	-	50.0	40.8	24.4	9.0	32.2	26.8	100.0	100.0	32.4	24.5
GPT imports as % of domestic disappearance	-	-	29.0	20.3	13.9	4.1	21.2	15.8	44.4	26.5	18.9	12.3
GPT imports as % of total imports	-	-	58.0	49.8	57.1	45.2	65.8	59.0	44.4	26.5	58.5	50.3
Total shipments as % of domestic disappearance	185.8	270.6	50.4	60.0	76.3	91.0	67.8	73.3	-	-	84.1	120.8
Exports as % of total shipments	46.2	63.0	0.7	1.3	0.9	+	-	0.1	-	-	19.6	37.5
Exports as % of imports	*	*	0.7	2.0	2.7	+	-	0.3	-	-	50.8	184.8

* Not meaningful.
\+ Less than 0.05 per cent.

Sources: Tariff Board industry surveys.

rubber footwear, the Board decided to exclude the premier grades of Canadian rubber footwear, and to adjust manufacturers' list prices, where necessary, so as to reflect the fullest available price discounts.

On this basis, using commodity descriptions contained in import documentation and manufacturers' catalogues, 63 different product-gender categories of rubber footwear were established by matching goods imported from GPT sources in 1982, 1983 and/or 1984 with seemingly comparable products originating in Canada and/or low-cost MFN countries.(1) While considerations of confidentiality preclude the publication of detailed price information, it may be stated that the most dominant impression conveyed by the data is of a general reduction in the price competitiveness of the GPT goods. Whereas in 1982 the landed costs (including all duties) of four-fifths of the product categories imported from GPT sources were in all instances lower than the prices of the corresponding domestic products, by 1984 this proportion had fallen to less than three-fifths. In the case of footwear entering under the MFN Tariff, it was approximately two-fifths.

It might, of course, be argued that these developments were only to be expected in view of the imposition of dumping duties on imports of rubber footwear from the main GPT suppliers during the greater part of the aforementioned period. However, it will be recalled that dumping duties were not imposed on snowmobile boots, rubber bottom-leather top boots and safety footwear, and the competitive position of the domestic suppliers of these products seems in no way to have been impaired, while dumping duties have also been levied on much of the footwear obtained from the major MFN suppliers.(2) Moreover, although the last few years have witnessed a significant weakening of the Canadian dollar vis-à-vis the United States dollar, the former has appreciated, in some cases quite substantially, against the currencies of most GPT countries(3) - a development which has assisted exports of rubber footwear from GPT countries to Canada.

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(1) Notably, Czechoslovakia, Poland and Taiwan, whose exports of rubber footwear to Canada were the subject of an inquiry by the Anti-dumping Tribunal in 1979 (see <u>supra</u>, pp. 11-12).

(2) See Appendix II, <u>infra</u>, pp. 72-4, 79-81.

(3) Thus, the Canadian dollar exchanged for an average of 627 South Korean won in 1984, compared with 408 won in 1979, this representing an appreciation of 54 per cent.

With respect to the different categories of product, the improvement in the price competitiveness of the domestic industry appears most evident in the case of all-rubber boots. Indeed, in regard to women's and girl's city boots - notably, those produced by the injection moulding process - a competitive edge over GPT imports appears to have been achieved by 1984. Youths' and boys' red sole knee boots also seem to have been competitively priced.

In this broad product area, the domestic industry's greatest price disadvantage in 1984 appears to have been in respect of men's red sole knee boots and waders - products utilizing large amounts of rubber, in obtaining supplies of which the domestic producers appear to be at some competitive disadvantage. By developing new moulds for red sole boots, Vimod (the major Canadian producer of these goods) has been successful in effecting economies in material usage, but this still remains a highly competitive sector of the market.

In regard to the other main product areas, the evidence of prices indicates that the Canadian industry had no major competitive problems in 1984 with respect to safety footwear and rubber bottom-leather top boots (comparatively few of which were imported from GPT sources) and snowmobile boots. Only in regard to overshoes does the domestic industry appear to have been undersold by a substantial margin.

Price Sensitivity

In an attempt to determine the most likely effects of tariff changes on the domestic market for rubber footwear, the empirical data pertaining to imports, domestic production and average unit prices during the period 1974 to 1984 were subjected to statistical regression analysis and examination by the use of scatter diagrams. These tests could not, of course, be carried out with respect to sandals, owing to the lack of domestic production thereof, nor in regard to rubber bottom-leather top boots, only piecemeal import data being available.

In the case of all-rubber boots, and - to a lesser extent - snowmobile boots, a highly sensitive relationship was demonstrated over the period as a whole between the movement of relative prices and changes in domestic market shares with respect to: (a) imports from GPT sources, (b) imports from MFN sources, and (c) domestic industry shipments. Thus, an increase in the relative price of all-rubber boots or snowmobile boots supplied by one of these three sources is predicated to result in a gain in market share for the other two. However, the analysis also indicates that where, as in present circumstances, the prices of domestic products and imported goods do not differ greatly, a substantial (e.g. 20 p.c.) decrease in the price of imports would have a proportionately small effect on the domestic industry's share of the home market. Thus, while recognizing that mass merchandisers of rubber footwear seek out the cheapest sources of supply, wherever they may be found - switching, as deemed necessary, from one import source to another and from imported goods to domestic products - some of the many small independent retailers of rubber footwear scattered across the country may prefer to purchase footwear from domestic suppliers for reasons of goodwill, reliable service, rapid replenishment of inventory, or superior product range; others, constituting perhaps the majority, may have little option in the matter, having to choose between competing domestic products because their businesses are too small or too remotely situated to warrant the attention of importers or foreign exporters.

Turning to the remaining major category of rubber footwear, an almost complete lack of sensitivity to relative price changes is indicated by an analysis of the data pertaining to overshoes. This, perhaps, should occasion no surprise, in view of the domestic producers' 90 per cent share of the home market, on the one hand, and the seemingly high prices charged for Canadian-made overshoes, on the other. Clearly, this is a product sector in respect of which the domestic industry - by virtue of the greater variety and accessibility of its products, the existence of rigidities in the distribution network, and the protection afforded by government contracts - has been able to achieve a large measure of insulation against competing imports.

Profitability

Profit margins with respect to individual product lines have improved substantially since 1981, with two of the Canadian manufacturers reporting average gross margins between factory costs of production and factory selling prices of 25-35 per cent for the first quarter of 1985. This may be compared with a crude unweighted average gross margin of just over 13 per cent for all four firms in 1982. With respect to the individual product categories, snowmobile boots (with industry gross margins in excess of 20 per cent in 1982 and subsequent years) and rubber bottom-leather top boots were generally the most profitable lines of production, while men's red sole boots and, to a lesser extent, overshoes (with industry margins in the range of 11-16 per cent) were the least profitable.

CHAPTER 5. CONCLUSIONS AND RECOMMENDATIONS

As a result of its inquiry, the Board finds that the Canadian rubber footwear industry is in a stronger competitive position than it was a decade ago, when the General Preferential Tariff applicable under tariff item 61700-1 was first withdrawn. This improvement has been achieved in part by a rejuvenation of some of the more traditional segments of manufacturing activity as a result of consolidation, rationalization and investment in new cost-reducing processes, and in part it has stemmed from a restructuring of the product profile of the industry so that the emphasis of production now rests more squarely on product lines which are both more profitable and less susceptible to foreign competition than the traditional areas of manufacture.

The Board notes that the volume of shipments by the domestic industry in 1984 differed little from that ten years earlier, in spite of a decline of over 50 per cent in the pairage of rubber footwear consumed at home. A marked expansion in exports, on the one hand, and a sharp drop in imports, on the other, were the factors contributing to this situation. In 1984, imports from all sources accounted for less than one-quarter of the value of all categories of rubber footwear consumed in Canada, while the corresponding proportion in the case of imports from GPT countries was one-eighth.

However, in recognizing the marked improvement which has occurred in the domestic industry's competitive position in recent years, the Board is conscious that this improvement reflects, in part, a 20 p.c. rate of duty on imports from GPT countries, as well as a general level of tariff protection considerably higher than that afforded to most Canadian industries, while exports - mainly of rubber bottom-leather top boots to the United States - have been boosted by currency exchange depreciation. However, the latter cannot be counted on to provide a permanent stimulus.

Another relevant concern relates to the recent adoption by Canada of the new international code for customs valuation. Formerly, the value for duty of rubber footwear entering Canada could be determined by ministerial

prescription. However, with the change in the system of customs valuation, this potentially protective instrument can no longer be applied.

Notwithstanding the withdrawal of the General Preferential Tariff, the Board notes that there has been a substantial increase in the volume of goods entering Canada from such countries as Malaysia and Sri Lanka, which have continued to enjoy the benefits of free entry under the British Preferential Tariff. The Board makes no recommendation in this regard but draws the matter to the Minister's attention.

Because of their comparatively high price and sensitivity to fashion, rubber bottom-leather top boots are more responsive to changes in the level of consumer income than are traditional types of waterproof footwear. The recent entry of new producers into this production area testifies to its profitability and implies a potential for future growth. Imports of rubber bottom-leather top boots have not yet encroached upon the Canadian industry's home market, although this could change should the General Preferential Tariff be reinstated at Free.

The manufacture of snowmobile boots has provided the domestic industry with another profitable, albeit much smaller, area of production activity, although one which in recent years has shown some vulnerability to import competition. In 1980-84 imports from all sources accounted for almost one-quarter, by value, of the domestic disappearance of snowmobile boots in Canada, approximately three-fifths of such imports originating in GPT countries.

The sector of the domestic industry engaged in the production of all-rubber boots appears to be the most vulnerable to import penetration, notwithstanding a decline in importation of the relevant goods. In 1984, approximately four-fifths of the value of all imports of rubber footwear, and four-fifths of the value of all such imports from GPT sources, fell into this product category, which also accounted for almost two-fifths of all domestic shipments.

Overshoes, an important component of the output of one Canadian producer, continue to come under severe price pressure from GPT imports.

In summary, the Board finds that the Canadian rubber footwear industry has achieved a considerable degree of success in restructuring and consolidating its competitive position - continuing the trend which the Board noted in its previous Report in 1982. The Board is conscious, however, that in the context of the continuing overall contraction in the market for rubber footwear since 1974, much of the industry remains vulnerable to foreign competition. It is also aware that the present strength of the industry in Canada reflects, at least in part, a general recovery in the economy from the recent recession.

Consideration of the foregoing factors has fully satisfied the Board that there would be an actual threat to the Canadian rubber footwear industry if GPT imports, now dutiable at 20 p.c., were to become admissible free of duty subsequent to December 31, 1985, on the scheduled termination of the Order in Council effecting the withdrawal of the General Preferential Tariff in relation to goods entering under tariff item 61700-1. The Board is therefore reluctant, at this time, to suggest a course of action that might inhibit the ongoing efforts of the domestic industry to improve its economic viability. Withdrawal of the General Preferential Tariff for a further period of three years would, in the Board's view, provide the time and opportunity for the industry to continue its recovery to the point where a re-evaluation can be made as to whether such withdrawal should then be allowed to lapse.

However, rubber sandals have not attracted the interest of Canadian manufacturers in recent years and, in what is clearly a secularly declining market, are unlikely to do so in the future. The present temporary tariff relief applicable to rubber sandals of GPT-country origin should therefore be made permanent.

Similarly, rubber riding boots, which are not produced in Canada and for which there is a limited demand, should be allowed duty-free entry under the General Preferential Tariff.

The Board therefore recommends that, with the exception of rubber sandals and rubber riding boots, the current withdrawal of the General Preferential Tariff with respect to rubber footwear entering under tariff item 61700-1 should not be allowed to lapse but should be continued for a further period of three years.

Donald R. Yeomans
Chairman

J.P. Bertrand
First Vice-Chairman

G.J. Gorman, Q.C.
Second Vice-Chairman

A.C. Kilbank
Member

K.C. Martin
Member

R.K. Matthie
Member

Ottawa
October 30, 1985

Minority Opinion

The findings of the Board following its careful, indeed exhaustive, investigation and a very full and complete hearing of all interested parties are well-established and clear as set forth in the first two paragraphs of the conclusions. The considerable progress in the consolidation and rationalization of domestic rubber footwear production noted by the Board in its 1982 report, has continued to the point that the Canadian industry has now become as fully competitive with foreign producers as can be reasonably foreseen and hoped for. In its earlier inquiry, the Board reported that the industry had "lately increased its overall share of the home market and expanded exports". This expansion in both regards has continued.

Nevertheless, in 1982 imports continued to be a major factor in the domestic market as a whole and a dominant one in certain segments. This is now no longer true. At the time of its previous inquiry, the Board, apprehending that import penetration would deepen and that there would therefore be injury, recommended the continuation of the withdrawal of GPT benefits after the scheduled expiry on December 31, 1982. As a result, for the fifth time since the introduction of the GPT in 1974, the domestic industry was sheltered from the preference accorded to imports from the developing countries (in the case of the goods at issue duty-free entry to similar products) - an unbroken record in this regard since August, 1975.

In this optic and by the light of the present report, the domestic industry's return to the well of relief provided by the safeguard procedures for the sixth time begs the question of what constitutes an injury or is grounds for a reasonable apprehension of a threat of injury. Excepting the manufacture of colour television receiving sets, the rubber footwear industry's solitary and unique safeguard breaks ranks with the array of other Canadian manufacturing industries (save that particularly sensitive minority excluded from the outset, as set forth in the first paragraph of this report). The rest have accepted with very few exceptions since, the operation of the GPT principle, and this should provide additional

enlightenment on what is considered injury or the threat thereof by all the other Canadian producers and what should be reasonably considered such for the rubber footwear industry.

It is clear that the industry is in an exceptionally healthy condition in all the substantial respects that the Board has been able to examine in the light of the economic factors referred to in the Minister's letters setting up the safeguard procedures and the present review: for instance, output, sales, domestic market share, profits, utilization of capacity, employment, wages, growth, and ability to raise capital.

The improvement in the competitive position of the industry since 1982 has continued to the point where it is difficult now to envisage how it could possibly be faring any better, all things considered, unless, of course, imports were to be totally barred, whether directly or indirectly - hardly a politic, let alone, conscionable solution for a country that depends upon peaceful two-way trade.

When one reviews the background chapter in the present report, several signal facts emerge. The industry as a branch of footwear production is one of the oldest in the country, the oldest-established company having begun the manufacture of waterproof (i.e. rubber) footwear in 1908. Axiomatically therefore, as part of a developing country out of the wilderness, it has been one of the longest to enjoy tariff protection. The tariff item at issue appears in the restructured version of the Canadian Customs Tariff adopted on November 30th, 1906 and has been reworded once only (in 1944) to eliminate the word "India", so as to make provision for footwear made from synthetic rubber, following the wartime development of a reliable domestic Crown-owned source of this basic material. In 1906, the relevant tariff item provided the following duty rates: BP 15 p.c., Intermediate 22½ p.c. and General 25 p.c.

The only fly in the ointment resulted from the 1932 Imperial Economic Conference in the free entry of exports from Commonwealth nations and colonies. In 1948, GATT set and bound a MFN rate at 22½ p.c. Through all this period the Canadian industry grew despite foreign competition, to

the point that in 1955 domestic producers retained 94 per cent of the dollar market for rubber footwear. This led the Board in one of its chronic examinations of this industry's constant representations for more protection to comment: "Few Canadian industries have anything approaching this proportion of the domestic market in their particular products".

Canada adopted the GPT preference on the principle that what had proved benefic to both the Commonwealth and Canada's commonweal under the BP duty-free dispensation, should prove equally benefic to the developing countries of the past post-war world and to Canada as a nation that lives or dies with trade or the lack of it. In the three years following the introduction of the General Preferential Tariff, only two commodity categories of all those originally included, were spared the consequent bath of reality or total immersion in the developing world's new trade currents. One of the two, oddly enough, was one of the oldest, - rubber footwear - and the other more naturally enough, was one of the newest - colour television receiving sets.

It is also to be noted that the present industry has benefitted in recent years, and still does, from the constant monitoring of imports from Asian and state-trading countries for the purpose of anti-dumping corrections. There has also been an extensive reliance on ministerial prescriptions for the purpose of advancing the value for duty. Although the latter is no longer possible subsequent to the introduction on January 1, 1985 of GATT's Valuation Code, a substantial degree of protection continues to be maintained as sweetly by another name, to wit, by ministerial specifications of "normal value" introduced on December 1, 1984 under the Special Import Measures Act, which replaced at that time the Anti-dumping Act. The question arises then once more as to the importance of the continued GPT suspension to the industry, in view of the discretionary range of monitoring and correction available through the anti-dumping controls.

This question takes on singular acuity in the light of the analysis in Chapter 2 of this report of the characteristics of the manufacture and distribution of the goods at issue. Since 1944, a local supply of synthetic rubber has alleviated the advantage hitherto of Far

Eastern countries controlling the supply of natural, i.e. plantation (as opposed to wild) rubber. Two other key developments should also be noted: the first is the development of new textile substitutes (some of which compete with rubber, while others complement its uses, for instance, in the manufacture of athletic footwear - not considered in this report) and the second is the introduction of new production technology. Plastic, vinyl, nylon and other substitutes for the non-rubber portions of footwear, are increasingly fashionable and cost-effective, and, because of locational advantage, plentiful supplies are available domestically at cheaper prices than can be matched by countries dependent on off-shore petroleum resources. This closes the circle of domestic advantage as to materials over most of the GPT developing countries.

The latter's advantage, cheap labour for the labour-intensive traditional lay-up process of footwear fabrication, has been met by the introduction of injection or compression moulding as an alternative process, earnestly supported by the Canadian Industrial Renewal Board and well responded to by the four Canadian producers. The oldest of these is now applying a moulding process in the production of some of its rubber bottom - leather top boots and rubber bottoms exported for assembly in the United States of America, while another producer, hitherto a "topper", has eliminated, since 1979, any imports of such bottoms in favour of its own domestic production, and now enjoys as a result equally impressive exports to the United States.

There has even been a new entry to the ranks of our domestic rubber footwear manufacturers. Using the technology developed in Italy and Germany and the synthetic materials developed in the U.S.A., this producer proceeded, by the moulding injection method, from the production of moulded unit soles in 1972 to the complete production of thermoplastic rubber footwear and waterproof vinyl footwear in 1979. The firm now flourishes at the high-volume end of the footwear market, with little reliance on direct sales representation for its distribution.

The contrast in labour costs of the two processes shows that such costs in the traditional lay-up system account for from 40 to 25 per cent from the cheapest to the more expensive items, while the moulded product, costing overall less than half, has proportionate labour costs varying from 17 per cent down to 8½ per cent for its most expensive product. The report notes also that "given a satisfactory level of output, capital costs do not constitute a major element in the overall cost of producing rubber footwear and, even in a moulding establishment, do not normally exceed the costs incurred on factory labour". Not suprisingly, our four Canadian producers are well into the new moulding processes as part of this revitalized and flourishing industry.

The other advantage of developing countries, cheap labour in plentiful supply, has now been met by our domestic producers with this new technology and with the low-cost synthetic materials readily at hand to make its introduction not only possible but highly profitable.

The threat of any serious competition from all exporting GPT, non-BP, countries has been substantially parried in the key elements of production costs, namely, labour, materials, technology and finally capital investment.

Not surprisingly, this is reflected in an approximate doubling since 1982 of the average gross margins between factory costs of production and factory selling prices, from just over 13 per cent indicated in a crude unweighted average for all four firms in 1982, to 25-35 per cent according to the figures provided by two of the producers for the first quarter of 1985. None of the producers spoke particularly to the bottom line of net profits but presumably, on the basis of past experience, would have done so readily if there was any possible case to be made.

The main thrust of the submissions was, as always, against any form of tariff relief to all foreign competition and a selective spotting of a given product as not doing as well as the others, rather than speaking to

the industry's general well-being and each producer's individual overall prosperity. The safeguard against the operation of the GPT principle surely was never contemplated on such a narrow basis.

On the issue of the foreseeable impact of the GPT dispensation of duty if its continued suspension since August, 1975 were to be terminated, the only remaining factors to retain must be that the four domestic producers, in addition to enjoying over 75 per cent of the national market, have an exuberant export trade, particularly with the United States. The remaining 25 per cent or so of the home market supplied by import sources is evenly split between GPT (including BP) countries and other sources, such as Czechoslovakia, Taiwan and Hong Kong (the latter supplying mostly lower-priced overshoes and sandals). Malaysia and Sri Lanka, long-time beneficiaries of cheap natural rubber and Asian labour costs and numbers, accounted for less than one-tenth of the less than 25 per cent of the total domestic market supplied by imports. The post-war bête noire, South Korea, in 1984 accounted for one-fifth of the volume and one-third of the value of all imports, namely, 5 per cent and 8 per cent respectively of the total domestic market.

As the opposite side of the coin, and too easily overlooked, is the principle that developing countries do end up by developing and becoming markets for the more advanced products of the developed countries, such as Canada. A corollary is that, in so doing, living standards and labour costs rise, and they cease to be as competitive in the areas of more primitive production, which they then begin to forsake. This is the history of Japan, and South Korea seems the likeliest Asian nation to follow suit.

On the basis of the present report, and just off the threshold of the renewal of a 10-year term for the GPT beneficence, it would seem as timely as fair to the Third World of 162 GPT countries (of which 60 are BP beneficiaries, anyway) to provide that the especially privileged, even exceptionally pampered, rubber footwear industry join the ranks of the bulk of Canadian manufacturers in embracing a more competitive new world and risk getting their feet wet, like all these others that seem to survive quite well indeed, without specious alarm.

The breath of fresh air resulting from the revival of GPT duty-free entry of foreign rubber footwear might even reach the Canadian consumers in the form of healthy price competition, even among the limited four Canadian producers now dominating the great bulk of the Canadian market.

Under all the relevant Acts and directives guiding the Board, there is no onus on the consumers to prove exploitation. Their protection from it is a fundamental part of the Board's mandate in all its proceedings and inquiries, and a healthy competition from all and sundry is its best warranty. The exceptionally privileged position of the domestic rubber footwear industry in regard to the GPT principle is not healthy for anyone and is a flaw in our national image before the developing countries.

For this reason, I would favour giving the ten-year suspension of GPT duty-free entry for all rubber footwear a timely, if perhaps, not overdue, hoist and terminate the very exceptional safeguard our domestic producers have exploited and enjoyed to any reasonable limit.

C.N. Beauchamp
Member

Ottawa
November 6, 1985

APPENDIX I

COUNTRIES ENTITLED TO ENTER GOODS UNDER THE GENERAL PREFERENTIAL TARIFF AS OF APRIL 19, 1985

Afghanistan
Algeria
American Samoa
Angola
Antigua-Barbuda*
Argentina
Ascension*
Bahamas*
Bahrain
Bangladesh*
Barbados*
Belize* (formerly British Honduras)
Benin (Dahomey)
Bermuda*
Bhutan
Bolivia
Botswana*
Brazil
British Indian Ocean Territory
Brunei*
Bulgaria
Burma
Burundi
Cameroon, United Republic of
Cape Verde Islands
Caroline Islands
Cayman Islands*
Central African Republic
Chad
Chile
China, People's Republic of
Christmas Island*
Cocos (Keeling) Islands*
Colombia
Comoros (Comoro Archipelago)
Congo
Cook Islands*
Costa Rica
Cuba
Cyprus*
Djibouti (Fr. Terr. of Afars & Issas)
Dominica*
Dominican Republic
Ecuador
Egypt
El Salvador
Emirates, United Arab
Equatorial Guinea
Ethiopia
Falkland Islands*
Fiji*
French Polynesia
French Southern & Antarctic Terr.
Gabon
Gambia*
Ghana*
Gibraltar*
Grenada*
Guam
Guatemala
Guinea
Guinea-Bissau
Guyana*
Haiti
Honduras
Hong Kong
India*
Indonesia
Iran
Iraq
Israel
Ivory Coast
Jamaica*
Jordan
Kenya*
Khmer Republic (Cambodia)
Kiribati* (formerly Gilbert Islands)
Korea, Republic of (South)
Kuwait
Laos, People's Democratic Republic
Lebanon
Lesotho*
Liberia
Macao (Macau) (Portuguese Overseas Provinces)
Madagascar

Malawi*
Malaysia*(incl. North Borneo (Sabah))
Maldives
Mali
Malta*
Mariana Islands
Marshall Islands
Mauritania
Mauritius*
Mexico
Montserrat*
Morocco
Mozambique
Nauru*
Nepal
Netherlands Antilles
New Caledonia and Dependencies
Nicaragua
Niger
Nigeria*
Niue
Norfolk Island*
Pakistan*
Panama
Papua New Guinea*
Paraguay
Peru
Philippines
Pitcairn*
Portugal
Portuguese Adjacent Islands, (Madeira Island, Azores Islands)
Qatar
Romania
Rwanda
St. Christopher (Kitts)-Nevis-Anguilla*
St. Helena*
St. Lucia*
St. Vincent and the Grenadines*
Sao Tome and Principe
Sénégal
Seychelles*
Sierra Leone*
Singapore*
Solomon Islands*
Somalia
Spanish North Africa
Sri Lanka*
Sudan
Surinam (Netherlands Guiana)
Swaziland*
Syria
Tanzania*
Thailand
Togo
Tokelau Islands*
Tonga*
Trinidad and Tobago*
Tristan da Cunha*
Tunisia
Turkey
Turks and Caicos Islands*
Tuvalu* (Ellice Islands)
Uganda*
Upper Volta
Uruguay
Vanuatu* (formerly New Hebrides)
Venezuela
Vietnam
Virgin Islands, British*
Virgin Islands, U.S.A.
Western Samoa*
Yemen (Y.D.)
Yemen Arab Rep. (Y.A.R.) (SAN'A)
Yugoslavia
Zaïre
Zambia*
Zimbabwe* (Southern Rhodesia)

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* Denotes GPT beneficiary countries and territories whose goods are also eligible for entry under the BP Tariff.

Source: Customs Tariff, January 1, 1985 (as revised April 19, 1985).

APPENDIX II

MINISTERIAL PRESCRIPTIONS AND SPECIFICATIONS COVERING RUBBER FOOTWEAR

A. VALUE FOR DUTY: AUTHORITY - SECTION 39(a), 39(d) OR 40 OF CUSTOMS ACT

Prescription No.	Prescription Date	Description of Goods	Country of Origin	Prescription for Value for Duty	Other Comments
117	May 31, 1971	Women's footwear	Spain	Fair market value = Export price determined pursuant to sec. 10 of Anti-dumping Act, advanced by 12 per cent	Superseded by prescription no. 200 (below)
200	April 6, 1976	Women's footwear	Spain	F.o.b. selling price, point of direct shipment, advanced by 11 per cent	
229	Aug. 10, 1977	Men's footwear	Spain	Selling price to purchaser in Canada, f.o.b. port of embarkation, plus 25 per cent	
289	July 18, 1978	Men's and women's footwear	Spain	Selling price to purchaser in Canada, f.o.b. port of embarkation, plus 5 per cent	Superseded by prescription no. 443 (below)
443	June 21, 1983	Men's and women's footwear (excluding certain sports footwear)	Spain	Selling price to purchaser in Canada, f.o.b. point of embarkation, plus 5 per cent	

APPENDIX II (cont.)

Prescription No.	Prescription Date	Description of Goods	Country of Origin	Prescription for Value for Duty	Other Comments
118	May 31, 1971	Women's footwear	Italy	Fair market value = Export price, determined pursuant to sec. 10 of Anti-dumping Act, advanced by 7.5 per cent	Superseded by prescription no. 189 (below)
188	Oct. 31, 1975	Women's footwear	Italy	Cost of production advanced by 23 per cent	Superseded by prescription no. 316 (below)
189	Oct. 31, 1975	Women's footwear	Italy	Fair market value = Selling price, f.o.b. place of shipment, advanced by 6 per cent	Superseded by prescription no. 316 (below)
241	Oct. 18, 1977	Men's footwear	Italy	Selling price to purchaser in Canada, f.o.b. point of embarkation, plus 15 per cent	Superseded by prescription no. 316 (below)
316	Oct. 12, 1979	Men's and women's footwear	Italy	Selling price to purchaser in Canada, point of direct shipment, plus 8.5 per cent	Superseded by prescription no. 441 (below)
441	June 21, 1983	Men's and women's footwear (excluding certain sports footwear)	Italy	Selling price to purchaser in Canada, f.o.b. point of embarkation, plus 8.5 per cent	

APPENDIX II (cont.)

Prescription No.	Prescription Date	Description of Goods	Country of Origin	Prescription for Value for Duty	Other Comments
217	March 17, 1977	Footwear	Taiwan	Selling price to purchaser in Canada, plus 20 per cent; for export packing = cost or 1 per cent of selling price, whichever is lower	Superseded by prescription no. 317 (below)
317	Oct. 12, 1979	Footwear	Taiwan	Selling price to purchaser in Canada, plus 13 per cent	Superseded by prescription no. 336 (below)
336	July 7, 1980	Footwear	Taiwan	Selling price to purchaser in Canada, f.o.b. point of embarkation, plus 13 per cent	Superseded by prescription no. 440 (below)
440	June 21, 1983	Footwear (excluding certain sports footwear)	Taiwan	Selling price to purchaser in Canada, f.o.b. point of embarkation, plus any charges for export packing not included in selling price in excess of 1 per cent thereof, plus 13 per cent of all the foregoing	

APPENDIX II (cont.)

Prescription No.	Prescription Date	Description of Goods	Country of Origin	Prescription for Value for Duty	Other Comments
219	March 17, 1977	Footwear	Republic of Korea	Selling price to purchaser in Canada, f.o.b. port of embarkation, plus 10 per cent; for export packing = cost or 1 per cent of selling price, whichever is lower	Superseded by prescription no. 439 (below)
439	June 21, 1983	Footwear	Republic of Korea	Selling price to purchaser in Canada, f.o.b. point of embarkation, plus any charges for export packing not included in selling price in excess of 1 per cent thereof, plus 10 per cent of all the foregoing	
274	March 21, 1978	All footwear	Brazil	Selling price to purchaser in Canada, f.o.b. port of embarkation, plus 50 per cent	Superseded by prescription no. 442 (below)
442	June 21, 1983	All footwear	Brazil	Selling price to purchaser in Canada, f.o.b. point of embarkation, plus 50 per cent	

APPENDIX II (cont.)

Prescription No.	Prescription Date	Description of Goods	Country of Origin	Prescription for Value for Duty	Other Comments
287	July 12, 1978	Boots and shoes for work or casual wear and men's casual footwear	Czechoslovakia Hungary Poland Romania	Values of comparable footwear of United States origin; such values to be adjusted, where warranted, by an amount which reflects any advantages derived from economies of scale or technological advance	Superseded by prescription no. 360 (excludes rubber footwear)

B. NORMAL VALUE: AUTHORITY - SECTION 9(7) or 11 OF ANTI-DUMPING ACT

Prescription No.	Prescription Date	Description of Goods	Country of Origin	Prescription for Normal Value	Other Comments
115	May 31, 1971	Women's footwear	Spain	Export price, determined pursuant to sec. 10 of Anti-dumping Act, advanced by 12 per cent	Cancelled - no prescription no.
116	May 31, 1971	Women's footwear	Italy	Export price, determined pursuant to sec. 10 of Anti-dumping Act, advanced by 7.5 per cent	

APPENDIX II (cont.)

Prescription No.	Prescription Date	Description of Goods	Country of Origin	Prescription for Normal Value	Other Comments
304	Feb. 26, 1979	Waterproof rubber footwear and snowmobile boots, constructed wholly or in part of rubber, worn over the foot or shoe, with or without liners, linings, fasteners or safety features	Taiwan	Value of comparable goods of Korean origin	Superseded by prescription no. 327 (below)
327	Dec. 21, 1979	Waterproof rubber footwear	Taiwan	(a) For new models: export price advanced by an amount not greater than the average margin of dumping calculated for the particular exporter; and (b) For new exporters: export price advanced by an amount not greater than the average margin of dumping calculated for all Taiwanese exporters	Superseded by prescription no. 408 (below)
408	Nov. 29, 1982	Waterproof rubber footwear, constructed wholly or in part of rubber, with or without liners, linings, fasteners or safety features, but excluding snowmobile boots, rubber bottom-leather top boots, and safety footwear	Taiwan	(a) Cost of production thereof, plus a percentage for profit, administrative, selling and all other costs, determined with reference to like goods sold domestically in the Republic	Superseded by specification no. 36 (below)

APPENDIX II (cont.)

Prescription No.	Prescription Date	Description of Goods	Country of Origin	Prescription for Normal Value	Other Comments
408 (cont.)				of Korea; or, in absence of sufficient information: (b) Export price, determined pursuant to sec. 10 of Anti-dumping Act, plus an amount representing the margin of dumping	
305	Feb. 26, 1979	Waterproof rubber footwear and snowmobile boots, constructed wholly or in part of rubber, worn over the foot or shoe, with or without liners, linings, fasteners or safety features	Czechoslovakia Poland	Value of comparable goods of Korean origin	Superseded by prescription no. 326 (below)
326	Dec. 21, 1979	Waterproof rubber footwear	Czechoslovakia Poland	Value of comparable goods of Korean origin	Superseded by prescription nos. 410 and 411 (below)
410	Nov. 29, 1982	Waterproof rubber footwear, constructed wholly or in part of rubber, with or without liners, linings, fasteners or safety features, but excluding snowmobile boots, rubber bottom-leather top boots, and safety footwear	Poland	(a) Normal value for comparable goods from Malaysia, adjusted to reflect the value of any differences in quality, structure, design or material; or, in the absence of comparable goods:	Superseded by specification no. 37 (below)

APPENDIX II (cont.)

Prescription No.	Prescription Date	Description of Goods	Country of Origin	Prescription for Normal Value	Other Comments
410 (cont.)				(b) Export price, determined pursuant to sec. 10 of Anti-dumping Act, plus an amount representing the margin of dumping	
411	Nov. 29, 1982	Waterproof rubber footwear, constructed wholly or in part of rubber, with or without liners, linings, fasteners or safety features, but excluding snowmobile boots, rubber bottom-leather top boots, and safety footwear	Czechoslovakia	(a) Normal value for comparable goods from Malaysia, adjusted to reflect the value of any differences in quality, structure, design or material; or, in the absence of comparable goods: (b) Normal value for comparable goods from Republic of Korea or Taiwan, adjusted to reflect the value of any differences in quality, structure, design or material; or, in the absence of comparable goods: (c) Export price, determined pursuant to sec. 10 of Anti-dumping Act, plus an amount representing the margin of dumping	Superseded by specification no. 37 (below)

APPENDIX II (cont.)

Prescription No.	Prescription Date	Description of Goods	Country of Origin	Prescription for Normal Value	Other Comments
306	Feb. 26, 1979	Waterproof rubber footwear and snowmobile boots, constructed wholly or in part of rubber, worn over the foot or shoe, with or without liners, linings, fasteners or safety features	Republic of Korea	(a) Aggregate of unverified cost of production and an amount for administrative, selling and all other costs and for profits as made available by the exporter; or, where above cannot be determined: (b) Aggregate of cost of production advanced by an average amount for administrative, selling and all other costs and for profits, calculated from submissions of other Korean exporters; and (c) For new models: export price advanced by an amount not greater than the average margin of dumping calculated for the particular exporter; and (d) For new exporters: export price advanced by an amount not greater than the average margin of dumping calculated for all Korean exporters	Superseded by prescription no. 328 (below)

APPENDIX II (cont.)

Prescription No.	Prescription Date	Description of Goods	Country of Origin	Prescription for Normal Value	Other Comments
328	Dec. 21, 1979	Waterproof rubber footwear	Republic of Korea	(a) For the ICC Corporation: aggregate of cost of production, advanced by a pro-rated inflation factor and an average amount for administrative, selling and all other costs and for profits; and (b) For new models: export price advanced by an amount not greater than the average margin of dumping calculated for the particular exporter; and (c) For new exporters: export price advanced by an amount not greater than the average margin of dumping calculated for all Korean exporters	Superseded by prescription no. 409 (below)
409	Nov. 29, 1982	Waterproof rubber footwear, constructed wholly or in part of rubber, with or without liners, linings, fasteners or safety features, but excluding snowmobile boots, rubber bottom-leather top boots, and safety footwear	Republic of Korea	Export price, determined pursuant to sec. 10 of Anti-dumping Act, plus an amount representing the margin of dumping	Superseded by specification no. 36 (below)

APPENDIX II (cont.)

Prescription No.	Prescription Date	Description of Goods	Country of Origin	Prescription for Normal Value	Other Comments
380	Jan. 26, 1982	Waterproof rubber footwear, constructed wholly or in part of rubber, with or without liners, linings, fasteners or safety features, but excluding snowmobile boots, rubber bottom-leather top boots, and safety footwear	People's Republic of China	(a) Normal value for comparable goods from Malaysia, adjusted to reflect the value of any differences in quality, structure, design or material; or, in the absence of comparable goods: (b) Export price, determined pursuant to sec. 10 of Anti-dumping Act, plus an amount representing the margin of dumping	Superseded by specification no. 37 (below)
381	Jan. 26, 1982	Waterproof rubber footwear, constructed wholly or in part of rubber, with or without liners, linings, fasteners or safety features, but excluding snowmobile boots, rubber bottom-leather top boots, and safety footwear	Yugoslavia	(a) Normal value for comparable goods from Malaysia, adjusted to reflect the value of any differences in quality, structure, design or material; or, in the absence of comparable goods: (b) Export price, determined pursuant to sec. 10 of Anti-dumping Act, plus an amount representing the margin of dumping	Superseded by specification no. 37 (below)

APPENDIX II (cont.)

Prescription No.	Prescription Date	Description of Goods	Country of Origin	Prescription for Normal Value	Other Comments
382	Jan. 26, 1982	Waterproof rubber footwear, constructed wholly or in part of rubber, with or without liners, linings, fasteners or safety features, but excluding snowmobile boots, rubber bottom-leather top boots, and safety footwear	Hong Kong	(a) Cost of production thereof, plus a percentage for profit, administrative, selling and all other costs, determined with reference to like goods sold domestically in the Republic of Korea; or, in the absence of sufficient information: (b)(i) Normal value for comparable goods from Malaysia, adjusted to reflect the value of any differences in quality, structure, design or material; or, in the absence of comparable goods: (ii) Export price, determined pursuant to sec. 10 of Anti-dumping Act, plus an amount representing the margin of dumping	Superseded by specification no. 36 (below)
383	Jan. 26, 1982	Waterproof rubber footwear, constructed wholly or in part of rubber, with or without liners, linings, fasteners or safety features, but excluding	Malaysia	Export price, determined pursuant to sec. 10 of Anti-dumping Act, plus an amount representing the margin of dumping	Superseded by specification no. 36 (below)

APPENDIX II (cont.)

Prescription No.	Prescription Date	Description of Goods	Country of Origin	Prescription for Normal Value	Other Comments
383 (cont.)		snowmobile boots, rubber bottom-leather top boots, and safety footwear			

C. NORMAL VALUE: AUTHORITY - SECTION 29(1) OF SPECIAL IMPORT MEASURES ACT

Specification No.	Specification Date	Description of Goods	Country of Origin	Specification for Normal Value	Other Comments
36	Nov. 30, 1984	Waterproof rubber footwear, constructed wholly or in part of rubber, with or without liners, linings, fasteners or safety features, but excluding snowmobile boots, rubber bottom-leather top boots, and safety footwear	Taiwan	Export price, determined under sec. 24 or 25 of Special Import Measures Act, plus 10 per cent of export price	
			Republic of Korea	Export price, determined under sec. 24 or 25 of Special Import Measures Act, plus 31 per cent of export price	
			Hong Kong Malaysia	Export price, determined under sec. 24 or 25 of Special Import Measures Act, plus 19 per cent of export price	

APPENDIX II (cont.)

Specification No.	Specification Date	Description of Goods	Country of Origin	Specification for Normal Value	Other Comments
37	Nov. 30, 1984	Waterproof rubber footwear, constructed wholly or in part of rubber, with or without liners, linings, fasteners or safety features, but excluding snowmobile boots, rubber bottom-leather top boots, and safety footwear	Czechoslovakia Poland Yugoslavia People's Republic of China	(a) Normal value for goods from Malaysia that most closely resemble subject goods, adjusted to reflect the value of any differences in terms and conditions of sale, in taxation and other differences relating to price comparability; or in the absence of sufficient information: (b) Normal value for goods from Republic of Korea or Taiwan that most closely resemble subject goods, adjusted to reflect the value of any differences in terms and conditions of sale, in taxation and other differences relating to price comparability; or in the absence of sufficient information: (c) Export price, as determined under sec. 24 of Special Import Measures Act, plus (i) in the case of Czechoslovakia, 70 per cent of export price;	

APPENDIX II (concl.)

Specification No.	Specification Date	Description of Goods	Country of Origin	Specification for Normal Value	Other Comments
37 (cont.)				(ii) in the case of Poland, 96 per cent of export price; (iii) in the case of Yugoslavia, 39 per cent of export price; (iv) in the case of the People's Republic of China, 19 per cent of export price	

Source: Revenue Canada, Customs and Excise.

APPENDIX TABLE I

APPARENT CANADIAN MARKET FOR ALL FOOTWEAR
(RUBBER AND NON-RUBBER), BY GENDER, 1974-84

	Average 1974-76	Average 1977-79	Average 1980-82	1983	1984	Average 1974-76	Average 1977-79	Average 1980-82	1983	1984
	- No. of Pairs ('000) -					- Percentage -				
Rubber Footwear	9,461	7,352	5,230	5,262	5,394	10.3	8.4	6.0	5.9	5.5
Waterproof(a)	8,207	6,582	4,792	4,609	5,049	8.9	7.5	5.5	5.1	5.2
Sandals, beach type	1,255(c)	770	438	653	345	1.4	0.9	0.5	0.7	0.4
Plastic Footwear	4,511	5,212	5,826	5,073	7,971	4.9	5.9	6.7	5.7	8.2
Waterproof	1,583	1,617	1,694	1,305	951	1.7	1.8	1.9	1.5	1.0
Sandals	2,928	3,596	4,133	3,767	7,020	3.2	4.1	4.7	4.2	7.2
Other Non-Rubber Footwear(b)	77,856	75,082	76,448	79,389	84,268	84.8	85.7	87.4	88.5	86.3
Men's & Boys'	19,076	17,189	14,770	14,215	15,770	20.8	19.6	16.9	15.8	16.2
Women's & Girls'	25,765	27,469	28,842	31,637	33,363	28.1	31.3	33.0	35.3	34.2
Children's & Infants'	4,871	5,004	3,928	3,402	3,987	5.3	5.7	4.5	3.8	4.1
Not Specified:										
Slippers & housewear	11,013	9,489	8,428	8,535	9,107	12.0	10.8	9.6	9.5	9.3
Special purpose	16,643	15,275	19,805	20,651	21,348	18.1	17.4	22.6	23.0	21.9
Sandals, beach type	488	656	674	950	695	0.5	0.7	0.8	1.1	0.7
GRAND TOTAL: ALL FOOTWEAR	91,828	87,647	87,505	89,724	97,633	100.0	100.0	100.0	100.0	100.0

(a) Includes snowmobile boots.
(b) Includes plastic footwear not specified as such.
(c) Estimated.

Sources: Canadian Import Tribunal, Report Respecting The Canadian Footwear Industry (June, 1985); Statistics Canada, Imports: Merchandise Trade, (cat. no. 65-203); Imports by Commodities (cat. no. 65-007); Tariff Board surveys.

APPENDIX TABLE II

VOLUME OF IMPORTS OF ALL FOOTWEAR
(RUBBER AND NON-RUBBER), BY GENDER, 1974-84

	Average 1974-76	Average 1977-79	Average 1980-82	1983	1984	1984 as % of Average 1977-79
	- No. of Pairs ('000) -					
Men's and Boys' Footwear						
Rubber[(a)]	(b)	2,200	1,644	1,196	1,301	59.1
Plastic	-	-	-	-	-	-
Other Non-Rubber	6,518	5,521	5,259	5,865	6,188	112.1
Total	6,518	7,721	6,903	7,061	7,489	97.0
Women's and Girls' Footwear						
Rubber[(a)]	(b)	840	412	498	455	54.2
Plastic	2,744	2,651	2,740	1,630	1,643	62.0
Other Non-Rubber	9,878	12,299	13,438	15,398	16,925	137.6
Total	12,622	15,790	16,590	17,526	19,023	120.5
Children's and Infants' Footwear						
Rubber[(a)]	(b)	1,004	550	588	428	42.6
Plastic	-	-	-	-	-	-
Other Non-Rubber	2,360	2,754	2,364	2,369	2,825	102.6
Total	2,360	3,758	2,914	2,957	3,253	86.6
Gender Not Specified						
Rubber:						
Snowmobile boots	484	390	152	250	212	54.4
Waders	(b)	110	139	64	81	73.6
Other[(a)]	5,694	-	-	-	-	-
Plastic:						
Sandals	184	945	1,392	2,137	5,376	568.9
Other	97	149	65	107	216	145.0
Non-Rubber:						
Sandals, beach type	488	656	674	950	695	105.9
Slippers & housewear	6,096	6,226	4,746	4,925	4,237	68.1
Special purpose	14,462	14,541	19,052	20,558	20,877	143.6
Total	27,505	23,017	26,220	28,991	31,694	137.7

APPENDIX TABLE II (CONT.)

	Average 1974-76	Average 1977-79	Average 1980-82	1983	1984	1984 as % of Average 1977-79
			- No. of Pairs ('000) -			
Aggregate						
Rubber	6,177	4,544	2,895	2,596	2,477	54.5
Plastic	3,024	3,745	4,197	3,874	7,236	193.2
Other Non-Rubber	39,801	41,997	45,534	50,063	51,747	123.2
Total	49,002	50,286	52,626	56,533	61,460	122.2

(a) Including rubber sandals, beach type.
(b) Included in "Gender Not Specified, Rubber: Other".

Sources: Canadian Import Tribunal, Report Respecting The Canadian Footwear Industry (June, 1985); Statistics Canada, Imports: Merchandise Trade (cat. no. 65-203); Imports by Commodity Class and Tariff Item (computer printout).

APPENDIX TABLE III

PERCENTAGE DISTRIBUTION OF THE VOLUME OF IMPORTS OF ALL FOOTWEAR (RUBBER AND NON-RUBBER), BY GENDER, 1974-84

	Average 1974-76	Average 1977-79	Average 1980-82	1983	1984
			- Percentage -		
Men's and Boys' Footwear					
Rubber[a]	(b)	4.4	3.1	2.1	2.1
Plastic	-	-	-	-	-
Other Non-Rubber	13.3	11.0	10.0	10.4	10.1
Total	13.3	15.4	13.1	12.5	12.2
Women's and Girls' Footwear					
Rubber[a]	(b)	1.7	0.8	0.9	0.7
Plastic	5.6	5.3	5.2	2.9	2.7
Other Non-Rubber	20.2	24.5	25.5	27.2	27.5
Total	25.8	31.4	31.5	31.0	31.0
Children's and Infants' Footwear					
Rubber[a]	(b)	2.0	1.0	1.0	0.7
Plastic	-	-	-	-	-
Other Non-Rubber	4.8	5.5	4.5	4.2	4.6
Total	4.8	7.5	5.5	5.2	5.3
Gender Not Specified					
Rubber:					
Snowmobile boots	1.0	0.8	0.3	0.4	0.3
Waders	(b)	0.2	0.3	0.1	0.1
Other[a]	11.6	-	-	-	-
Plastic:					
Sandals	0.4	1.9	2.6	3.8	8.7
Other	0.2	0.3	0.1	0.2	0.4
Non-Rubber:					
Sandals, beach type	1.0	1.3	1.3	1.7	1.1
Slippers & housewear	12.4	12.4	9.0	8.7	6.9
Special purpose	29.5	28.9	36.2	36.4	34.0
Total	56.1	45.8	49.8	51.3	51.6
Aggregate					
Rubber	12.6	9.0	5.5	4.6	4.0
Plastic	6.2	7.4	8.0	6.9	11.8
Other Non-Rubber	81.2	83.5	86.5	88.6	84.2
Total	100.0	100.0	100.0	100.0	100.0

(a) Including rubber sandals, beach type.
(b) Included in "Gender Not Specified, Rubber: Other".

Source: Appendix Table II.

APPENDIX TABLE IV

DOMESTIC DISAPPEARANCE: PAIRAGE OF ALL CATEGORIES OF RUBBER FOOTWEAR, 1974-84[(a)]

	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
	- No. of Pairs ('000) -										
Shipments	4,091	3,436	3,589	3,558	3,898	4,346	3,385	2,981	3,014	3,515	4,019
Shipments to domestic market	3,937	2,935	2,942	2,702	2,687	3,039	2,522	2,327	2,153	2,666	2,929
Imports:[(b)] Total	7,351	5,409	5,772	4,769	4,517	4,347	3,904	2,549	2,233	2,596	2,477
GPT	3,131	3,776	3,854	2,674	2,161	2,046	2,138	1,454	1,269	1,548	1,235
Non-GPT	4,220	1,632	1,918	2,095	2,356	2,302	1,767	1,095	963	1,048	1,242
Total supply	11,442	8,845	9,361	8,327	8,415	8,693	7,289	5,530	5,247	6,111	6,496
Exports	154	471	639	875	1,199	1,304	863	654	861	849	1,090
Domestic disappearance	11,288	8,374	8,722	7,452	7,216	7,389	6,426	4,876	4,386	5,262	5,406

(a) Includes: rubber bottom-leather top boots, rubber bottoms for export, all-rubber boots, overshoes, snowmobile boots and rubber sandals.

(b) All tariff items. Figures for 1974-76 are estimates.

Sources: Statistics Canada, Imports by Commodity Class and Tariff Item (computer printout); Tariff Board industry surveys.

APPENDIX TABLE V

DOMESTIC DISAPPEARANCE: ALL CATEGORIES OF RUBBER FOOTWEAR VALUED IN CONSTANT DOLLARS, 1974-84[(a)]

	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
					- $'000 -						
Shipments	18,267	16,703	17,205	18,247	21,118	23,475	17,353	14,796	15,496	15,766	18,516
Shipments to domestic market	17,714	12,568	11,921	11,293	11,899	13,310	10,852	9,790	9,212	10,369	11,164
Imports:(b) Total	8,206	5,956	5,652	4,841	5,129	6,071	5,020	2,469	2,488	2,933	3,440
GPT	3,792	3,757	3,836	2,858	2,594	3,212	2,993	1,191	1,220	1,525	1,737
Non-GPT	4,414	2,199	1,817	1,994	2,533	2,858	2,027	1,278	1,270	1,407	1,703
Total supply	26,473	22,659	22,857	23,088	26,247	29,546	22,373	17,264	17,984	18,699	21,956
Exports	553	4,135	5,284	6,954	9,219	10,165	6,521	5,008	6,284	5,397	7,352
Domestic disappearance	25,920	18,534	17,573	16,134	17,028	19,381	15,852	12,256	11,700	13,302	14,604

(a) Base year = 1971.
(b) All tariff items. Figures for 1974-76 are estimates.

Sources: Statistics Canada, Industry Price Indexes (cat. no. 62-011); Imports by Commodity Class and Tariff Item (computer printout); Tariff Board industry surveys.

APPENDIX TABLE VI

VOLUME OF IMPORTS OF RUBBER FOOTWEAR UNDER ALL TARIFF ITEMS, BY CATEGORY OF PRODUCT, 1974-84

	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
	- No. of Pairs ('000) -										
Rubber bottom-leather top boots(a)	-	-	-	-	-	-	-	-	-	-	-
All-rubber boots(b)	3,885	3,028	3,504	2,960	2,833	2,929	3,143	1,852	1,516	1,540	1,764
Overshoes(b)	1,174	839	887	680	408	342	115	109	182	153	156
Snowmobile boots	643	650	158	160	421	590	178	144	132	250	212
Sandals(b)	1,649	892	1,223	969	855	486	468	444	403	653	345
All categories of rubber footwear(b)	7,351	5,409	5,772	4,769	4,517	4,347	3,904	2,549	2,233	2,596	2,477
	- Percentage -										
Rubber bottom-leather top boots(a)	-	-	-	-	-	-	-	-	-	-	-
All-rubber boots(b)	52.8	56.0	60.7	62.1	62.7	62.4	80.5	72.7	67.9	59.3	71.2
Overshoes(b)	16.0	15.5	15.4	14.3	9.0	7.9	2.9	4.3	8.1	5.9	6.3
Snowmobile boots	8.7	12.0	2.7	3.3	9.3	13.6	4.6	5.7	5.9	9.6	8.6
Sandals(b)	22.5	16.5	21.2	20.3	18.9	11.2	12.0	17.4	18.1	25.2	13.9
All categories of rubber footwear(b)	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

(a) Excluding rubber bottoms. No imports of rubber bottom-leather top boots discernible from published data.
(b) Figures for 1974-76 are estimates.

Sources: Statistics Canada, Imports by Commodity Class and Tariff Item (computer printout).

WOOLLEN AND WORSTED YARNS AND FABRICS

REFERENCE
162

A REPORT BY
THE TARIFF BOARD

REFERENCE No. 162

A REPORT OF AN INQUIRY

by the

TARIFF BOARD

respecting

WOOLLEN AND WORSTED YARNS AND FABRICS

This report, made pursuant to a reference by the Minister of Finance and signed by the Board on July 24, 1984, is presented for tabling in Parliament under the provisions of section 6 of the Tariff Board Act.

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CHAPTER I

INTRODUCTION

On August 5, 1983, the Textile and Clothing Board (TCB) submitted a report(1) to the Minister of Industry, Trade and Commerce and of Regional Economic Expansion regarding the effects of imports of woollen and worsted fabrics upon Canadian production. The TCB reported, inter alia, the comments of Canadian producers, importers and users of wool fabrics on the subject of the tariff structure, and noted that applicable duty rates, limited to a ceiling of $1.10 per pound, have been significantly eroded in real terms since their introduction in 1962. Since that time the prices of wool fabrics have increased by a factor of 2.5 to 3. While originally the ceiling rate was intended only for relatively expensive fabrics of which very few were produced in Canada, this rate applies today to fabrics priced at less than $4.00 a metre, a relatively low price, particularly for worsted fabrics.(2)

The TCB concluded that under these conditions the tariff structure hinders possible diversification by Canadian fabric producers and increases their dependence on special measures of protection. The TCB stated that the greater the quality and the higher the price, the less significant becomes the protection for this fabric. As a result, Canadian producers tend to manufacture more or less standard, medium price products, which are particularly vulnerable to import competition from developing or state-trading countries. Clearly tariff structure has an influence on the structure of production. Therefore, the TCB recommended to Finance that the tariff structure applicable to imports of woollen and worsted fabrics should be reviewed to ensure that it still corresponds to the purposes for which it had been developed.

As a consequence of the Textile and Clothing Board's recommendation and in the light of other related problems with respect to certain woollen and worsted fabric tariff items, the Tariff Board received the following letter of reference, dated October 24, 1983, from the Minister of State for Finance.

Dear Mr. MacDonald:

> "Canadian producers of wool textile fabrics have represented, in hearings before the Textile and Clothing Board, that the rates of duty on their products no longer provide the protection that was intended when those rates were established. On the other hand, garment producers

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(1) Textile and Clothing Board. Woollen and Worsted Fabrics: A Report to the Minister of Industry, Trade and Commerce and Regional Economic Expansion. Minister of Supply and Services Canada, 1983. Catalogue No. Id 46-3/1983.

(2) Ibid., pp. 85-86. The specific maximum of $1.10 per lb. applies only to tariff item 53215-1.

have represented that the fabric producers are unable to supply the quality and variety demanded by Canadian consumers, particularly in the case of fabrics, made from yarns spun on the woollen system, for men's garments.

In view of the above, I direct the Tariff Board to make a study and report, pursuant to section 4(2) of the Tariff Board Act, of the following tariff items covering woollen and worsted fabrics and the yarns used in their production: 53105-1, 53110-1, 53120-1, 53205-1, 53210-1, 53215-1, 53220-1, 53230-1, 53245-1, 53246-1, 53247-1, 53250-1 and 53255-1. The Board may include in its review any other tariff items which it may consider relevant. The Board should assume that no changes are contemplated at this time in the current rates of duty on garments and other products made with these fabrics. It is also expected that in its analysis of these tariff items, the Board would consider the impact of any tariff changes on the fabrics on the ability of Canadian garment producers to compete with imports of clothing from all sources, but especially from developed countries.

I would ask the Board to consider, as an alternative to tariff protection, the feasibility, along with the economic advantages and disadvantages, of providing some other measures of assistance, such as a subsidy, to the fabric producers, particularly for those market areas where the industry has not traditionally supplied a significant share of the demand.

If the Board should find that amendments to the Customs Tariff are desirable, I would ask the Board that it prepare a revised schedule of tariff items with recommendations as to rates of duty. If a subsidy or other assistance should be considered feasible and preferable to tariff protection for the fabric producers, I would ask the Board to provide detailed recommendations regarding such alternative assistance.

I would appreciate it if the Board could submit its report by the end of June, 1984."

Yours sincerely,

Roy MacLaren
Minister of State for Finance

The goods subject to this inquiry are identified in the letter of reference by tariff item number. The description of goods and the MFN rates of duty applicable as of January 1, 1983 for the referred items follow below.(3)

(3) Canadian Customs Tariff, 1983.

Tariff Item	Goods Subject to Duty	MFN
53105-1	Rovings and yarns, fifty per cent or more, by weight, of hair	6.8 p.c.
53110-1	Rovings and yarns, wholly or in part of wool, or in part of hair, n.o.p.	10.8 p.c.
	and, per pound	6.7 cts.
53120-1	Yarns and warps, spun on the worsted system, composed wholly of wool or in part of wool or hair, imported by manufacturers for use in their own factories in the manufacture of woven fabrics in chief part by weight of wool or hair and not exceeding six ounces to the square yard, when in the gray or unfinished condition, under such regulations as may be prescribed by the Minister	10.8 p.c.
	and, per pound	6.7 cts.
53205-1	Woven fabrics composed wholly or in part of yarns of wool or hair, n.o.p.	25 p.c.
	and, per pound	16.7 cts.
	The total duty leviable shall not be in excess of ....per pound	-
53210-1	Woven fabrics composed wholly or in part of yarns of wool or hair and weighing not less than twelve ounces to the square yard	25 p.c.
	and, per pound	16.7 cts.
53215-1	Woven fabrics composed wholly or in chief part by weight of yarns of wool or hair and weighing not more than nine ounces to the square yard, n.o.p.	25 p.c.
	and, per pound	16.7 cts.
	The total duty leviable shall not be in excess of ....per pound	$1.10

Tariff Item	Goods Subject to Duty	MFN
53220-1	Woven fabrics, composed wholly or in chief part by weight of yarns of wool or hair, not exceeding in weight four ounces to the square yard, when imported in the gray or unfinished condition, for the purpose of being dyed or finished in Canada	18.3 p.c.
53230-1	Woven billiard cloth composed wholly or in part of wool or hair; melton cloth for use in the manufacture of tennis balls	20 p.c.

	Woven fabrics, composed of yarns spun on the woollen system, containing not less than 50 p.c. by weight of virgin wool or hair and not containing more than one generic type of man-made fibre, or containing not less than 40 p.c. by weight of virgin wool or hair and not containing any man-made fibres, for use in the manufacture of men's and boys' suits, vests, sport coats and blazers, dress slacks and fine tailored topcoats other than car coats and duffle coats:	
53245-1	Weighing not more than 9 ounces to the square yard in accordance with standard test methods described in ASTM D1776-74, and valued at not less than $5 per square yard .... (Temporary Tariff Item)	5.5 p.c.
53246-1	Weighing more than 9 ounces to the square yard but less than 12 ounces to the square yard in accordance with standard test methods described in ASTM D1776-74, and valued at not less than $6.60 per square yard (Temporary Tariff Item)	6.5 p.c.

Tariff Item	Goods Subject to Duty	MFN
53247-1	Weighing not less than 12 ounces to the square yard in accordance with standard test methods described in ASTM D1776-74, and valued at not less than $7.90 per square yard .... (Temporary Tariff Item)	7.5 p.c.

53250-1	Tweed fabrics, composed wholly of yarns of virgin wool or hair spun on the woollen system, not exceeding 35 inches in loom width, valued at not less than $8 per square yard, for use in the manufacture of men's and boys' suits, vests, sport coats and blazers, dress slacks and fine tailored topcoats other than car coats and duffle coats (Temporary Tariff Item)	Free
53255-1	Woven fabrics composed of yarns containing not less than 95 p.c. by weight of virgin wool or hair, spun on the woollen system, valued at not less than $14 per square yard, for use in the manufacture of men's fine tailored topcoats other than car coats and duffle coats .... (Temporary Tariff Item)	Free

The Minister states that the Board may also consider any other tariff items which are relevant. In light of representations it was decided that the reference should be expanded to include the following item.

		MFN
53010-1	Sliver, wholly or in parts of wool, not containing man-made fibres or glass fibres ....per pound	3.3 cts.

On November 1, 1983, the Executive Director, Reference Operations, wrote to all parties who had participated in the earlier hearings before the Textile and Clothing Board to inform them of the reference and to advise them that they would receive a discussion paper and questionnaire from the staff in the near future. In addition, the interested parties were advised that the Board's first public hearing would commence on Tuesday, January 31, 1984, at 10:00 a.m. in its courtroom in Ottawa. Subsequently, the Staff Discussion Paper and Questionnaire was distributed and participants were requested to forward their submissions by January 16, 1984. The Board received 33 public and confidential submissions from interested trade associations, from every domestic woollen and worsted fabric manufacturer, from several men's and ladies garment manufacturers and from foreign exporters. The public hearing lasted two and a half days.

Following the first public hearing the Board's research staff analysed the evidence and data which had been presented and issued a Staff Appreciation of the Evidence and Issues in late March. A second public hearing regarding this paper was held on Thursday, May 3rd. The Board received public and confidential written submissions for this hearing from most of those who had participated in the January hearing plus nine new submissions from garment manufacturers and foreign exporters. On the day of the hearing the CTI presented a new compromise proposal. Since neither the Board nor other participants had had an opportunity to study this proposal in advance of the hearing the Board decided to delay its final consideration of the issues until after May 21 in order to provide an adequate opportunity for other parties to study and comment on the CTI proposal.

CHAPTER II

SCOPE AND METHODOLOGY OF THE REFERENCE

The central focus of this reference is the problem of ascertaining, in the light of current circumstances, the degree of tariff protection necessary in the coming years to sustain a viable woollen and worsted fabric industry in Canada. This is clear from the fact that the tariff items referred to the Board cover only goods used by or produced by wool fabric manufacturers. It is apparent that, in deciding to initiate this reference, the Minister faced two problems requiring detailed and impartial investigation. The first problem, as has been noted by the Textile and Clothing Board, is the erosion due to inflation of the protective effect of the $1.10 per pound maximum duty on goods entering under tariff item 53215-1. The second problem is the continuing status of the five temporary tariff items 53245-1, 53246-1, 53247-1, 53250-1 and 53255-1. These items were introduced in 1980 and the question is whether they are still appropriate and, if so, whether, and at what rates, they should be made statutory.

In the course of this inquiry the Minister also asked the Board to consider the impact of any changes for wool fabric duties on the competitive position of Canadian garment producers vis à vis clothing imports, especially from developing countries. It should be noted that the terms of reference, contrary to the views expressed by the garment manufacturers, did not prohibit the Board from considering increases in the rates of duty for wool fabrics. On the other hand, because the Minister stated that he did not contemplate any changes in the current rates of duty on garments, any increase in wool fabric rates could have a negative impact on the competitive position of domestic garment manufacturers. The Board was asked by the Minister to consider this impact, especially with respect to developing countries, as another factor in arriving at its recommendations.

The Minister, furthermore, made it clear that opposed to the viewpoint of the wool fabric weavers that levels of protection for fabric production, due to erosion or temporary reductions, were too low, there was also the view that higher rates of duty would not bring about additional domestic output of wool fabrics because Canadian weavers could not produce the quality and variety of fabrics required by Canadian garment manufacturers. Therefore, the Board also asked for briefs and submissions on the issue of fabric availability, so that its recommendations would not raise the cost of fabrics unduly.

In response all interested parties appearing before the Board commented on the quality and variety of Canadian fabric production. The term "quality" was discussed with reference to defective or substandard fabrics as well as to grade of cloth with regard to colour consistency, finish, foldability and various other attributes and characteristics; and it will be so employed in this report. When the term 'variety' was mentioned, reference was normally made to type and kind of fabric, e.g., gabardine, serge, tweed, and to fabric style in terms of design and colour.

Garment manufacturers were of the opinion that domestic weavers did not and could not produce wool fabrics in the numerous varieties and qualities required by them. Therefore, it was argued by Canadian apparel makers that not only should duties on fabrics not be increased, but they should be reduced to Free for those fabrics which were not available from domestic protection. Fabric producers on the other hand claimed that they could weave any variety and quality if given a fair opportunity. Another criterion by which domestic wool cloth weavers were allegedly found wanting was delivery. Criticism was directed at them also by reason of their inability to provide domestic garment manufacturers "exclusivity", a very desirable factor in a fashion-conscious industry. This means that a particular fabric would only be woven for one garment maker giving him a marketing advantage as the exclusive supplier of apparel of that specific fabric.

Evidence presented at the public hearing indicated a higher ratio of rejects for domestic fabrics than for imported fabrics. Wool fabrics rejected because of defects or less than acceptable quality amounted to 6-7 percent of the purchases from domestic weavers while they totalled 2-3 percent with respect to imports. While it is clear that quality rejects for domestic production as against foreign fabrics are considerably higher, the proportion of rejects is not so high as to suggest that all or a major part of Canadian output is substandard and will remain so. However, consistently high quality has a cost, one which it is difficult to incur when protection is continuously eroded by inflation as in the case of worsted fabrics weighing 9 oz or less per square yard in which instance duties payable cannot exceed $1.10 per pound. A higher level of protection, it can be argued, would constitute an incentive for improved quality.

While the Board accepted the claim that domestic weavers have the capability of producing any one variety, by reason of up-to-date equipment, knowledge and skills, and can do so competitively, provided the volume of the order is adequate, it is clear that the small Canadian industry cannot supply all the varieties and qualities of wool fabrics available on the world market and required by domestic garment manufacturers. Canadian weavers, during a given period, do produce a large number of varieties and qualities of wool fabrics, both worsted and woollen, but it is equally true that a large number are not now produced domestically nor will be at any time in the foreseeable future. The Canadian market is already too small for many varieties and qualities to warrant domestic production on a long-run basis, a situation which is even worse if exclusive treatment is requested.

However, the Board is of the opinion that non-availability of specific varieties and qualities is not a sufficient reason in itself to warrant free entry. Where varieties or qualities are unique so as to constitute an almost exclusive market, such as the fine coatings and the hand-woven tweeds of tariff items 53250-1 and 53255-1, unhindered access by garment manufacturers is justified. But, in those instances where the demand for domestically made wool fabrics would, because of substitution, be adversely affected by a reduction to Free for varieties and qualities not made domestically, the Board deems such action to be inadvisable. Moreover, the

production of specific varieties and qualities varies from year-to-year with changes in fashion and consumer fabric preferences, a consideration which suggests considerable caution in the setting of Customs tariffs for these products.

Because of the garment manufacturers' emphasis on quality throughout this reference, an attempt was made, with industry assistance, to develop an objective measure of quality for woollen and worsted fabrics which might be incorporated in the tariff for the purposes of duty differentiation. This attempt failed generally, not because of any disagreement between fabric producers and garment manufacturers, but because neither side was able to specify or detail criteria for wool fabric quality except in the case of certain special blended fabrics. The Board concluded that, for goods destined for the fashion industry, beauty is in the eye of the beholder. This conclusion, however, does not deny the importance of product quality, whether of yarns for fabric producers or of fabrics for garment manufacturers. Concerns about product quality and delivery reliability are common throughout all industry sectors. In view of the tenor of the garment manufacturers' statements on these issues it may be that the domestic fabric manufacturers should give quality and delivery a higher priority in their corporate strategies. The nature of the evidence, however, left the Board unable to take account of these factors in framing its recommendations, except, as noted, in the case of special blended fabrics.

The participants also raised several non-tariff trade problems which, in the Board's opinion, are outside the scope of this reference. One of the woollen fabric producers stated that frequently imports of woollen fabrics and garments manufactured from reprocessed wool, mainly from Europe, are labelled as "pure wool" rather than "reprocessed wool", as required by Canadian labelling regulations. The Board recognizes that many consumers may not understand the difference between "pure wool" and "virgin wool". In the Board's opinion, domestic labelling requirements should be administered in the same manner for imports as for domestic production but recognized that such administration was not within the Board's mandate for this inquiry. Both the fabric producers and the garment manufacturers alleged that fabrics and garments were being sold either at dumped prices by West European exporters or at subsidized prices by East European exporters. Again, an investigation of these allegations is beyond the Board's mandate; appropriate solutions are provided for by the new <u>Special Import Measures Act</u>.

The Minister stated that he expected that the Board "would <u>consider</u>(1) the impact of any tariff changes on fabrics on the ability of Canadian garment producers to compete with imports of clothing from all sources, but especially from developed countries". In developing and appraising each alternative solution the Board gave careful consideration to the average impact that higher fabric duties would be expected to have on the woollen and worsted garment producers. It is recognized, of course, that an

(1) Underlining added.

average comprises differences as between individual garment producers, depending on their market position and the mix of domestic and foreign fabrics used by them.

The garment manufacturers stressed the importance of producing to recent predetermined retail price points and argued that any increase in duties would seriously impair their competitive position. In other evidence, however, the men's garment producers stated that a worsted fabric costing $16 per linear yard could be used to produce suits with a retail price ranging anywhere from $275 to $450. The garment industry's rhetorical presentation regarding the inflexibility of retail price points was not substantiated by any factual data. Indeed, the Board doubted that the argument could be factually substantiated. The Board, nevertheless, is satisfied that, in its analysis of the various proposals and possible solutions below, it has fully complied with the Minister's request to consider the impact of any tariff changes on Canadian garment producers.

It should be noted that because of the constrained timeframe for this investigation the Board decided at the outset to adopt the findings and conclusion of the Textile and Clothing Board concerning the economic situation of the Canadian wool fabric industry as the basis for its inquiry. Thus, although the main indicators of economic performance were brought up to date, the Board concentrated its study on the tariff issues as opposed to the general economic issues.

It was assumed that any increase or decrease in the rate of duty on fabrics would be fully reflected in their price and therefore, in their cost to the garment industry. This assumption would appear to be realistic inasmuch as woollen fabric is produced by a few firms and the bulk of domestic worsted fabric by a single company only. The impact of a change in fabric prices on the cost of production of garments was determined by the importance or percentage of that cost represented by the fabric. For example, for a wool fabric which comprises 33.3 per cent of the cost of producing a given garment, a ten percentage point increase in the rate of duty, and hence a 10 per cent increase in the cost of that fabric, would raise the garment's total production cost by 3.3 per cent.

Of course, the percentage of the cost of making a accounted for by fabric cost varies from one garment to another. Generally, it is higher for pants than for suits, according to confidential information received by the Board. The importance of fabric also varies in accordance with the garment's quality. A high quality suit, requiring a superior lining, and more hand finishing is less affected by higher fabric costs than a medium-quality, more machine made suit. The impact calculations in this report are based on a fabric content of garments of 33.3 per cent, a weighted average of the average reported by ten domestic garment manufacturers. Calculations of the impact of changes in the rates of duty for yarn on fabric cost are based on a yarn content cost of 55 per cent.

The effect of changes in the rates of duty for wool sliver and for woollen and worsted yarns and fabrics on customs revenue was calculated as well. This serves to present an estimate of the total impact of all changes in rates of duty of the referred tariff items. This combined effect was determined for the CTI proposal, the proposal of the garment manufacturers and for the recommendations of the Board.

The incidence of the Board's recommendations also measured, in terms of the estimated dollar impact on the domestic output of garment manufacturers, fabric weavers, and yarn spinners, to obtain a balance of total costs and benefits. This cost/benefit analysis was carried out at manufacturers' price levels. Consequently, the impact on consumer prices, and in turn on consumer cost was not appraised. It should be noted that an increase in fabric cost may not be passed on to the Canadian consumer because of competition in the domestic market for wool garments. However, assuming that the increase is indeed passed on in full, consumer prices for wool garments would change by the same percentage as the cost of production of garment manufacturers.

CHAPTER III

SUMMARY OF SUBMISIONS AND ORAL EVIDENCE

American Textile Manufacturers Institute, Inc. (ATMI)

The ATMI submitted a brief for the May 3 hearing on behalf of member companies. ATMI was concerned about the August 5, 1983 report of the Canadian Textile and Clothing Board (Reference No. 162) (sic) which concluded that the duty rate on T.I. 53215-1 should be raised. Since T.I. 53215-1 is bound under the GATT, the Canadian government would have to invoke Article XXVIII of the GATT if a decision were made to increase the duty rate. Based on Canadian import statistics, it was estimated by the ATMI that exports from the US to Canada in 1983 under T.I. 53215-1 amounted to approximately $11.70 million (Canadian).(1) Accordingly, ATMI will ask the U.S. government to seek compensation, should the tariff rate be increased.(2)

Aquascutum Canada Inc.

Aquascutum presented a brief for the May 3 hearing as a manufacturer of high quality men's and ladies' rainwear, outerwear and sportswear. While fabrics for its rainwear are bought almost exclusively from domestic suppliers, wool fabrics for topcoats and sportswear have to be imported. The company is paying a 25 p.c. duty on all wool fabrics and $1.10 per pound on worsted fine cloth below 9oz.

In response to the Board's staff appraisal paper, Aquascutum supported removal of the price points for items 53250-1 and 53255-1 but objected to the increase of duty for item 53215-1 from $1.10 to $1.60 per pound. The deletion of temporary items 53245-1, 53246-1 and 53247-1 would affect its prices without any benefit to the fabric producers as far as its purchases are concerned.

Associazione Dell' Industria Laniera Italiana

A brief was submitted for the January 31 hearing on behalf of the Italian Wool Textile industry by the Grey, Clark, Shih and Associates.

Production of Italian woollen, worsted, and blended fabrics in Italy was approximately 163,676 tons in 1982. Exports to the world market comprises 51% and exports to the Canadian market about 1.3% of their total production in that year.

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(1) According to Statistics Canada the value of imports from the U.S. under T.I. 53215-1 in 1983 was $1.142 million.

(2) The comparable U.S. duty for an 8 oz. per sq. yard fabric valued at $10.00 per pound is 36.3 p.c. plus 25.0¢/lb.

Export prices of worsted fabric from Italy declined in 1983 due to a general reduction in demand for fabrics and to the impact of the prolonged recession.

The submission argued that many Prato fabrics do not benefit from the $1.10 per pound maximum duty under 53215-1 because they are not by chief weight wool. Fabrics weighing less than 9 ounces per square yard are generally subject to a maximum duty of about 95 cents per linear yard. Unless a fabric is valued at more than $2.85-$2.90 U.S. funds (F.O.B. in Prato), the statutory ad valorem duty will be less than 95 cents per yard.

For the May 3 hearing, the Associazione questionned the proposal to raise the maximum duty under 53215-1 from $1.10 per pound to $1.60 per pound since there is very little Canadian production of carded wool fabrics in this weight category. The major supplier of these fabrics is Italy and the trade is dominated by the Prato producers whose product is unique. In the worsted fabric area the Canadian industry's problems seem to be coming from sources whose competition might be better regulated by quotas under the MFA, or the Canadian anti-dumping or countervailing duty legislation.

The Associazone expressed serious doubts about the value of proposed remission of customs duty for apparel manufacturers since they would face an immediate duty increase but entitlement to drawback would be uncertain.

Auckie Sanft Inc.

Auckie Sanft supported the January submission of the ladies' apparel manufacturers associations. The company is a manufacturer of high quality ladies prêt-à-porter sportswear, coats and suits. Approximately 30% of the company's need for worsted fabrics are purchased from domestic sources by giving them samples to reproduce. In addition, about 90% of the company's woollen fabric requirements are imported from Italy, France and England. The company imports those fabrics because they get exclusivity and variety in terms of colouring, fabric textures and weaves. The only effect of tariffs on these fabric imports is to raise input prices which in turn increases retail prices.

Brodkin Industries Ltd.

Brodkin Industries submitted a brief for the January 31 hearing, and stated that it is a multidivisional firm selling ladies' coats, suits, dresses and sportswear under a number of designer labels. Brodkin, however, is not a mass producer or a mass merchandiser. In their price range they must offer a degree of exclusivity to both the consumer and the retailer.

In recent years the company has become increasingly involved in importing finished wearing apparel. An appropriate mix of imported and Canadian product enables them to maintain a substantial base in Canada while offering their customers the full range of products. To date, Canadian mills have been unable to reproduce comparable fabrics in acceptable quality.

The company competes with imported garments from Germany, France, and Italy where garment manufacturers buy fabrics in their own markets free of duties. Further, a large proportion of the garments exported to Canada are being manufactured in countries such as Poland, Czechoslovakia, Hungary, and Romania and these garments are touched up in Germany, France or Italy, relabelled and re-exported.

Finally, it was stressed that if the company had duty free entry for fabrics which cannot be purchased from Canadian mills, the company could maintain more jobs in Canada and they could repatriate some which the company has already exported to Asia.

Britalia Inc.

Britalia Inc., as the principal Canadian agent for Harris Tweed fabrics, submitted a brief for the January 31 hearing.

Harris Tweed is a special fabric that by definition and certification must be made from pure virgin Scottish wool, and must be spun, dyed and finished in the Outer Hebrides of Scotland. Furthermore, it must be woven by the Islanders in their own homes on hand looms. Only fabrics that meet all of the above specifications can be labelled Harris Tweed. There is currently no mill in Canada which is a significant supplier of woollen or tweed fabric to the men's trade which could substitute for Harris Tweed. There are several woollen mills serving the ladies trade but their products are lower priced than Harris Tweed, and are far different. There can be no question of substituting Canadian-made tweeds for Harris Tweeds because of the strict trade-mark control on all Harris Tweed items. Furthermore, the Canadian consumer readily recognizes and seeks the Harris Tweed garment and label, and will not accept imitations or inferior substitutes.

The elimination of the U.K.'s entitlement to British Preferential Tariffs on January 1, 1980 was a serious threat to Harris Tweed sales in Canada because it weighs more than 9 ozs per square yard and would have been subject to a rate of 25%. This threat remains today if the Board were to decide to terminate tariff item 53250-1.

Britalia Inc. believed that there should be no restrictions on the duty free entry of Harris Tweed. When the temporary tariff items were introduced, the applicability of tariff item 53250-1 was restricted by several clauses, including an ex-mill value of at least $8.00 per square yard; use only in the men's and boys' trade; and only for suits, vests, coats, topcoats, and dress slacks. As a result, sales of Harris Tweeds to Canadian manufacturers of ladies wear have been seriously impaired. Recently, the value of the U.K. pound has fallen drastically in terms of Canadian dollars so that Canadian buyers, who expected to import their fabric duty free, have found that they have to pay a duty of 6.5% under T.I. 53246-1 because the ex-mill cost is now below $8.00/square yard. These restrictive clauses in tariff item 53250-1 have not benefitted any Canadian mills. On the contrary, duties on Harris Tweed fabrics may contribute to and accelerate the disappearance of

Canadian apparel manufacturers, further eroding the customer base of the Canadian mills. Since the duty went to 6.5% Britalia has received several inquiries about shipping these fabrics to Asia for making up into jackets.

At the May 3 hearing Britalia supported the staff proposals respecting tariff item 53250-1 to remove the price break and making it statutory and urged the Board to consider the extension of this item to manufacturers of ladies wear, hats and other products in which it can be used.

British Woollens Inc. and Affiliated Trading Canada Ltd.

British Woollens Inc. is a wholesaler of fabrics whereas Affiliated Trading Canada Ltd. acts as a distributor and sales agent. In its brief for the January 31 hearing, British Woollens stated that about 90% of the fabrics handled by the British Woollens Inc. are worsted and woollen fabrics. The remaining 10% is polyester woven fabric. In the case of Affiliated Trading Canada Ltd. about 80% of their imports are woollen and worsted fabrics while the remainder is polyester filament fabrics. Their sales of imported worsted fabric to the apparel industry is distributed approximately 70% to men's suit makers; 10% to trouser manufacturers; and 20% to manufacturers of ladies wear. Of imported woollen fabric, however, 90% is sold to men's suit makers while the remaining 10% is sold for the ladies' apparel market.

Woollen fabrics imported from Italy are made from reclaimed wool which is substantially cheaper than virgin wool. Italian woollens are extremely important to the Canadian ladies' sportswear manufacturing industry. If their access to these fabrics were restricted by higher duties it would be very difficult, if not impossible, for them to continue to produce garments in current volumes. This view was supported by the fact that in recent years Canadian garment manufacturers have become increasingly involved in the importation of finished garments.

The Canadian apparel industry does not have an adequate domestic source of the woollen and worsted fabrics. They are in a highly competitive situation against "low-cost" garment sources. To restrict the apparel industry's access to fabrics by imposing higher tariffs will seriously weaken the position of Canadian apparel manufacturers without benefitting the Canadian weaving industry.

In light of their experience British Woollens made a number of recommendations. First, worsted fabrics weighing over 9 oz per square yard should be duty free. Second, duty free entry should be granted tariff items 53245-1, 53246-1, 53247-1, 53250-1 and 53255-1 and the various restrictions should be removed from the nomenclature. Third, the $1.10 maximum should be maintained for tariff item 53215-1. Fourth, there should be separate tariff items for woollen and worsted fabrics. Fifth, special fabrics containing more than 15 per cent of special hairs should be granted duty-free entry. Sixth, quota imports should be granted duty-free entry as well.

Budmark Textiles Inc.

Budmark stated in its brief for the January 31 hearing that it is an importer of 55/45 per cent polyester/wool fabric originating in Prato, Italy. The company sells about 98 per cent of these fabrics to Canadian manufacturers of ladies' sportswear. Without these fabrics many Canadian consumers could never afford to wear wool garments. There are thousands of mills in the Prato area providing a tremendous variety of fabrics and their flexibility permits them to move into production of an item quickly and to deliver in a very short time. This variety and flexibility are not available from the much smaller Canadian industry.

Canadian Textiles Institute (CTI)

For the January 31 hearing, the Canadian Textile Institute (CTI) presented its problems and recommendations associated with the tariff structure for wool fabrics on behalf of the woollen and worsted fabric manufacturers. The CTI represented all the Canadian woollen and worsted manufacturers:

Cleyn & Tinker Inc.
Cookshiretex Inc.
Les Lainages Victor Ltée
Satexil Inc.
Artex Woollen Mills
Silknit Limited
West Coast Woollen Mills Ltd.

The CTI stated that the industry includes some of the largest wool textile manufacturers in the world equipped with machinery incorporating the most advanced technology for spinning, dyeing, weaving and finishing. The mills have invested large amounts of capital in new technologies and have made strong advances in productivity and efficiency and in the quality of their products. There are at present three woollen fabric manufacturers in the industry and all are vertically integrated from fibre preparation through spinning, weaving and finishing. In the worsted fabric side of the industry, there are two producers also vertically integrated from spinning through weaving and finishing.

The CTI submitted that the current low level of tariff protection available to the woollen and worsted fabric industry under one statutory item and three temporary items is inhibiting the industry. They argued that there has been substantial erosion of protection under certain tariff items, particularly over the last 10 years. The existing tariff provisions for these items no longer provide the protection that was intended when they were originally established. The statutory item (53215-1) which contains a specific maximum duty on a large proportion of wool fabric imports results in an actual duty of less than half the intended rate when it was established in 1962. Furthermore, since 1980 five temporary tariff items provide reduced

rates of duty or duty free entry for certain woollen fabrics for use in menswear. The erosion of original tariff protection has given imports a significant price advantage and this advantage has been further enhanced over the past 3 years by the increasing strength of the Canadian dollar vis-à-vis the currencies of the principal wool fabric exporting countries. With low-cost fabric and garment imports causing additional price pressures in the Canadian market and with the cost of raw materials and production rising, the domestic fabric producers are caught in a severe cost-price squeeze.

A maximum MFN duty for wool fabrics weighing less than 9 ounces (T.I. 53215-1) was established at a level of $1.10 per pound in 1962 and has remained unchanged through all the inflation experienced in the last 21 years. As a result, the duty collected on worsted imports of 9 ounces and less per square yard, equivalent to about 24 per cent in 1972, and was equal to only about 10% in 1982.

As a result of this erosion of tariff protection, the CTI claimed that the market share of Canadian manufacturers has declined sharply. In 1982, import penetration was 68% in the woollen fabric subsector and 42% in the worsted fabric subsector. Overall, Canadian weavers held a 43% share of the woollen and worsted fabric market in 1982. This represents a serious decline from 47% in 1981 and from 57% as recently as 1978. Capacity utilization for the woollen fabric subsector during the same time period (1979-82) declined from 90.4% to 60.1% for spinning; from 89.6% to 58.5% for weaving; from 86.6% to 55.0% for dyeing and finishing. Regarding worsted fabrics during the same period, capacity utilization also has declined from 101.0% to 79.6% for spinning; from 97.0% to 53.8% for weaving; from 68.9% to 56.2% for dyeing and finishing. The employment impact for the woollen and worsted fabrics industry during the 1979-82 period resulted in a reduction from 2,431 to 1,578 employees, a 54% decline. The CTI observed that import penetration in various segments of the wool apparel sector for which data is available is substantially lower than the 57.0% of import penetration in the wool fabric sector. Garment imports represented 27% of the wool pant market, 33% of the overcoat and topcoat market, 15% of the structured sportcoat and blazer market, and 20% of the structured suit market.

The CTI argued that tariff protection available to Canadian weavers be maintained or reestablished at normal levels. The maintenance and further development of a viable wool fabric industry in Canada is important not only to the fabric producers, but also to the apparel industry they serve. To this end, the CTI has proposed a series of recommendations.

It was recommended that the rates of duty for tariff items 53105-1, 53110-1, and 53120-1 remain unchanged.

It was recommended that the rates of duty for tariff item 53205-1 (i.e., maximum limit on duty payable of 60¢/lb under the BPT) and 53210-1 (maximum limit on duty payable of 55¢/lb under the BPT) remain unchanged. The CTI considered it essential that no reduction should be made in the MFN rates for these items beyond the Tokyo Round concessions.

It was recommended that the MFN $1.10 per pound maximum duty under tariff item 53215-1, which has caused a prolonged erosion of tariff protection under this item, be eliminated so as to prevent further erosion and that an ad valorem rate of 17.5 p.c. MFN be provided. This request would leave the Canadian weavers with less than half the tariff protection enjoyed by their counterparts in the U.S. where the duty is 38 p.c. plus 32¢/lb and without a maximum. Therefore, the American mills making similar fabrics would enjoy almost 2.5 times the tariff protection that would, then, be provided by the Canadian tariff.

Further, the CTI recommended that the temporary tariff items 53245-1, 53246-1 and 53247-1 be restored to the rates provided in the parent items and that this proposal be implemented by eliminating them. This proposal would give Canadian weavers a fair opportunity to compete for the menswear fabric business. It would not only restore the neutrality of the tariff which now treats ladieswear and certain menswear fabrics differently but would also restore the balance among tariff rates applicable to fabrics of different fibre content which compete in the men's clothing market. At the same time this would eliminate problems of tariff administration.

The CTI also recommended that temporary tariff item 53250-1 remain in place in order to provide duty-free entry for tweed fabrics. The CTI considered that the intent of this item would be maintained and its administration facilitated if it were restricted to hand-woven goods. Also, temporary tariff item 53255-1 should remain in place in order to provide duty-free entry for certain heavy woollen fabrics used in men's fine tailored topcoats. The minimum price points in these two duty-free items should be maintained and be adjusted annually to reflect inflation. Finally, the descriptive provisions of the temporary tariff items should be rigorously enforced. The CTI recognized three problems in this area; first, the difficulty of rigorously administering the menswear end-use provision in a market where men's and ladies' garments may be made in the same factory; second, the difficulty of administering loom width when narrow fabrics may be made on wide looms; and finally, the problems for customs officers in distinguishing between fabrics made from virgin wool and those made from reprocessed wool.

With respect to wool sliver, the CTI recommended that the planned reductions in the MFN rate on T.I. 53010-1 be accelerated in order to provide immediate duty-free entry for wool sliver from all sources.

With regard to its proposal for temporary items 53245-1, 53246-1, and 53247-1, the CTI asked that Canadian mills be given a fair opportunity to bid for the business of Canadian users and noted that these fabrics are in competition in varying degrees with other fabrics manufactured by the wool textile industry.

The CTI considered that these recommendations would allow the wool fabric producers to compete more effectively with imports, to supply a somewhat broader range of fabrics to their customers and to regain at least some of the Canadian market lost to imports in recent years. If these

proposals had been in effect during 1983, the CTI estimated that they would have restored approximately 3 percentage points to the tariff protection for the wool fabric industry.

The CTI has long recognized that the wool apparel manufacturers require an environment in which they can compete effectively against imports of finished garments. To this end, the CTI has strongly supported garment producers in their efforts to obtain special measures of protection against apparel imports from low-cost sources and in their recent efforts to improve the administration of the many bilateral arrangements restraining apparel imports from low-wage countries.

The CTI noted that Canadian wool fabric producers have not requested subsidies as an alternative to adequate tariff protection. It is the industry's contention that the restoration of adequate and realistic tariff protection is the only way to ensure that domestic fabric producers can compete fairly for the business of their customers against imports from many countries, which occupy a large share of this market. The CTI would be extremely concerned about the precedent, the basis and the ramifications of any subsidy applied at the fabric level. It would hardly be desirable for fabric producers to abandon their right to adequate tariff protection in exchange for a subsidy program that would be discretionary, arbitrary and of questionable benefit. Therefore, the CTI strongly opposed the concept of subsidies applied at the fabric level. Subsidies at the fabric level would be a disincentive to Canadian production by applying a financial reward for desisting from production.

The CTI submitted a second brief for the May 3 hearing which re-emphasized that the two main problems facing the fabric industry were the erosion of the $1.10 per pound maximum duty on tariff item 53215-1 and the status of temporary tariff items 53245-1, 53246-1, 53247-1, 53250-1 and 53255-1. Regarding item 53215-1, the CTI supported the staff's proposal that the duty applicable to this item on the basis of 1983 imports should be 25 p.c. with a maximum of $1.60 per pound. This specific maximum must be adjusted to ensure that the ad valorem equivalent does not fall below 17.5 p.c. in any year.

With respect to temporary tariff items 53245-1, 53246-1, and 53247-1, the CTI strongly advocated the discontinuation of these items and that the goods enter at the rates provided for under the parent tariff items as requested in the first brief. Regarding temporary items 53250-1 and 53255-1, the CTI supported the continuation of these items on a temporary basis, with the inclusion of a "handwoven" provision in item 53250-1 and maintainance of the minimum price for both items.

In addition, the CTI supported the retention of item 53230-1 but would not object to the deletion of item 53220-1 for woven wool fabrics, four ounces or less to the square yard, when imported in the gray or unfinished condition for dyeing and finishing in Canada.

The CTI did not support the staff's proposal regarding duty remission for wool fabrics, although the CTI noted with satisfaction that the thrust of this proposal was to encourage import replacement and increased domestic production. Such a program was considered to have severe negative consequences since the proposal would create an inducement for garment manufacturers who currently purchase most of their requirements from domestic sources to switch half of their purchases to imports. In order to deter this anticipated shift to imports, Canadian fabric producers would be forced to reduce their prices. In addition, garment manufacturers would have an incentive to import expensive fabrics to maximize their duty remission potential, while purchasing the cheapest fabrics obtainable from the domestic sources. Finally, there was no mechanism to ensure that the costs and benefits of the program would fall on the same mills. That is to say, a garment manufacturer purchasing Canadian worsteds might use his remission entitlement to import woollens currently purchased from Canadian mills.

At the second hearings the CTI presented a modification to their earlier proposal with respect to item 53215-1. The CTI proposed that 53215-1 be split into two separate items. Item 53215-1 would cover woven fabrics composed wholly or in chief part by weight of yarns of virgin wool or hair and weighing not more than 9 ounces to the square yard. The MFN rate of duty would be 25 p.c. to a maximum of $1.60 per pound as per the staff proposal.A new item 53215-2 would cover woven fabrics composed wholly or in chief part by weight of yarns of reprocessed wool or hair spun on the woollen system, and weight not more than 9 ounces to the square yard. The MFN rate of duty would be 25 p.c. to a maximum of $1.10 per pound and adjusted as per the staff proposal.

<u>Canlin Import-Export Ltd.</u>

For the January 31 hearing, Canlin Import-Export Ltd. submitted a brief stating that the company imports woollen fabrics only from Italy and a small quantity of worsted fabrics from Uruguay. Canlin Ltd. imports the fabrics from Italy primarily because of fashion trends and availability. Cost and delivery are other important factors. The Italian mills can generally produce goods in three to four weeks whereas delivery from Canadian mills is usually much longer. In addition, there is a tremendous variety of woollens available from Prato, Italy.

Woollen fabrics produced in Canada are mostly heavy-weight coatings used in outerwear; production of lighter and medium-weight fabrics is rather limited. If Canadian mills provided comparable quality, delivery, price and fashion, Canlin's customers would probably buy more goods from domestic suppliers.

In the past few years a number of Canlin's customers have begun shipping some or all of their Prato woollens to the Orient. They now import finished garments. Canlin argued that if there are more import restrictions on fabrics that their customers will be forced to follow this trend even more. Prato fabrics are less expensive than Canadian fabrics because they are made from reclaimed wool and other fibres.

Carsilco International Ltd.

Carsilco stated in its brief for the January 31 hearing that the company is an importer of a full range of fabrics for the fashion industry. The company's specific interests in this inquiry are cashmere and worsted fabrics originating in the People's Republic of China. Carsilco buys worsted fabrics from China for reasons of quality and variety. Chinese quality is one of the best in the world, on par with the U.K. for gabardines and flannels. A substantial portion of Carsilco's worsted purchases from China are whites and pastels which are particularly difficult to make and which are not available in Canada. It is also not economical nor feasible to produce cashmere fabrics in Canada. Nevertheless, the Chinese quota is far too restrictive and Carsilco's Canadian customers pay a premium of 10% to 25% over Canadian mill prices for flannels and gabardines.

Carsilco recommended that the $1.10 per pound maximum duty under tariff item 53215-1 be maintained, that the duty on worsted fabrics in white and pastel shades and on fabrics containing 15 per cent or more by weight of cashmere be reduced to Free.

Consumers' Association of Canada (CAC)

For the January 31 hearing, the CAC submitted a brief and stated that the CAC is a nationwide voluntary organization which represents consumers' interest. The availability of good quality textiles and clothing at reasonable prices is a matter of concern not only to members of CAC but to all consumers in Canada. The CAC argued that protective tariffs affect consumers in three obvious ways. First, they increase the price of the imported commodity. Second, they lessen the incentive for the domestic suppliers to keep their costs as low as possible but also lead to higher prices for domestic output. Third, they lead to a loss of consumer surplus because the higher prices discourage demand. Like tariffs, import quotas lead to higher prices as well, although not for exactly the same reasons.

The CAC recognizes that estimating the actual cost of protective measures is a difficult and controversial task. The CAC cited a study which shows that in 1979 Canadian consumers paid approximately $467.4 million more for clothing than they would have paid had duties been Free. The CAC believes that this works out to an average of over one hundred dollars per family. The CAC recognized that the above cited study is not directly relevant vis-à-vis Reference 162, but does suggest that the cost of protectionist policies is very high. The only obvious measurable cost of the tariffs protecting the woollen and worsted fabric industry are the duties on imported fabrics. In 1982 these totalled nearly $15 million. Since tariffs paid by the importers of fabrics are passed on to consumers in the form of higher prices for clothing and other end products, Canadian consumers paid $15 million more for these products than they would have without protective tariffs.

With regard to the question whether there is an acceptable alternative to tariff protection, the CAC considered supporting alternatives that would lead to a general lowering of tariff and non-tariff barriers. The CAC is not only opposed to the use of quotas as an alternative to tariff protection but also to the continuation of the current quotas on worsted imports.

With regard to subsidies as an alternative to tariffs, it is CAC's opinion that even though subsidies may have the advantage over tariffs and quotas in that the cost to the consumer-taxpayer is more visible and more easily measured, subsidies should be used only for specific projects to help firms modernize in an attempt to make them more competitive in market areas where they already compete. Subsidies should not be used on an on-going basis simply to keep an uncompetitive firm in business.

Delegation of the Commission of the European Communities

The Delegation of the Commission of the European Communities submitted comments on the staff appreciation paper to the Board prior to the May hearing.

The Delegation noted that Member States of the European Communities were the principal source of Canadian imports of wool fabrics and of wool mix woollen fabrics weighing 9 oz. or less. The Delegation argued that to treat pure wool and wool blend fabrics in a markedly different manner could lead to undesirable distortions.

In view of the major interest of the EC in the goods the Delegation submitted that reductions in tariff levels world-wide since 1962 should be taken into account and that an upward adjustment as advocated by the CTI would be wholly unjustified.

Dorothea Knitting Mills Ltd. (DKM)

DKM stated in its brief submitted for the January 31 hearing that DKM are probably the largest importers of yarns containing "hair" in Canada and they also import fine quality woollen spun yarns in blends of pure wool, and of wool blended with cashmere, camel hair and Angora. These are used in the manufacture of full fashioned sweaters, gloves, scarves and headwear and usually are of counts finer than those of yarns spun in Canada.

With respect to tariff items 53105-1 and 53110-1, if anything is done, DKM would like to see the duty rates reduced for the yarns of interest to them. Canadian mills do not produce these products and the firm does not believe that their free entry would harm any Canadian mill. DKM is faced with vigorous import competition of garments from the Far East and Europe and any changes that will reduce their costs, without harming Canadian industry, would be beneficial.

The Harris Tweed Association Ltd.

The Harris Tweed Association, representing the Harris Tweed fabric industry of the Outer Hebrides of Scotland, submitted information in relation to tariff item 53250-1 for the January 31 hearing.

No Canadian mill produces a woollen fabric for the men's garment trade that could substitute for Harris Tweed. The Canadian consumer recognizes and seeks the Harris Tweed garment and label, and will accept no inferior imitation.

Tariff item 53250-1 has had the effect of causing considerable unnecessary disruption of Harris Tweed imports when the mill price falls below Can $8.00 per square yard due to the appreciation of the Canadian dollar vis-à-vis European currencies. The Association recommended that the existing tariff on non-Canadian textile fabrics should be amended to permit the duty-free importation of all Harris Tweed fabrics into Canada; both the minimum price and the end-use restriction contained in this item should be deleted.

Jack Victor Ltd.

Jack Victor submitted a brief for the May 3 hearing supporting the submissions of the men's clothing manufacturers' associations.

The major products manufactured by Jack Victor are men's fine suits, although the company also makes some sport jackets and a few fine overcoats. The company's suits sell at retail between $300.00 and $375.00. At this price the retailer and the consumer expect to buy a suit made of the finest woven and styled fabrics. The competition has been from Korea and the Eastern Block countries where low cost labour is being used. The countries subject to quotas are moving up in price range in order to make better use of the quotas. These off-shore manufacturers have free access to the highest quality fabrics, in many cases identical to piece goods imported by Jack Victor's from Korea. In the face of this competition, the company cannot increase its prices.

The company predicted that the company would be unable to make use of the remission program and would simply be faced with higher fabric costs. The company could see no alternative other than to pass on these costs to the retailers, who have told them that higher prices will result in smaller orders. This would lead to layoffs or more short time working.

Japan Woollen and Linen Textiles Exporters Association
Japan Wool Spinners Association
Japan Worsted and Woollen Weavers' Association

The Japanese associations submitted a brief for the May 3 hearing in response to the staff appreciation paper.

They argued that Japanese wool fabrics do not compete with and are not injuring Canadian woollen and worsted production. At present Japanese woollen and worsted fabrics are high priced, high fashion fabrics of a type unavailable from Canadian manufacturers. Superior quality begins with the worsted yarn itself. Japanese manufacturers traditionally have made extensive use of super 70's quality wool in their worsted yarns, while Canadian manufacturers produce worsted fabrics almost exclusively from yarns using at best 64's quality wool. Aside from considerations of price, design and quality, the current volume of Japanese woollen and worsted fabric exports to Canada are not significant and cannot, from a commercial standpoint, be considered a source of injury to the Canadian industry.

The proposed increase in tariff item 53215-1 would merely penalize Canadian clothing manufacturers and ultimately the Canadian consumers without generating benefits to the Canadian fabric producers. Imports from Japan were less than 3% of Canadian worsted fabric imports in 1982 and were of a quality which cannot be produced by Canadian mills.

The proposed remission arrangement, if properly designed and implemented, might work to reduce the fabric costs of Canadian clothing manufacturers, but the associations doubted that this would occur.

Finally, the associations suggested that the Board should not recommend any increase in any tariffs on woollen and worsted fabrics.

Men's Clothing Manufacturers' Associations of Ontario and Quebec

The men's clothing manufacturers of Ontario and Quebec made a joint submission to the Board for the January 31 hearing.

The men's fine clothing manufacturers have invested heavily to improve productivity through adoption of modern equipment and manufacturing techniques. There is a move to greater engineering in the production of men's suits everywhere in the world and as this trend continues the industry will have to rely increasingly on fabric differentiation as a means of differentiating the final product in the market place. The men's garment market is very fashion conscious where variety and superior quality is central to success.

It was contended that fabric and other raw material costs are very important to the industry's competitive position despite assertions to the contrary by domestic fabric suppliers. Garment manufacturers must acquire fabrics in both variety and quality and at world prices. Canadian fabric producers have not and are not able to satisfy this key requirement despite the CTI's arguments to the contrary.

The strong Canadian dollar vis-à-vis European currencies has made European garment prices very attractive. Relatively low fabric duties have enabled garment manufacturers to reverse a disturbing trend in the early 1980's to increased imports of garments. However, recent currency movements

are now making the import of finished garments from EEC countries more attractive. In addition, the share of the men's garments market held by developing countries has also been increasing recently. The garment industry also cannot rely on quotas to prevent further erosion of the market; there are many potential sources which are not subject to quota at the present time. Moreover, the government has given no assurance of long term quota protection.

If tariffs on imported fabrics are increased, Canadian weavers will be able to price up to the increased tariff. Such increased costs cannot be easily passed on to the consumer. Retailers are determined to maintain price points and the end result of tariff increases will be increased garment imports and reduced domestic production of men's fine clothing. It should be stressed that the industry's strongest competitive position is in those garments where the fabric tariffs are lowest. The impact of tariff increases on medium and higher priced suits would be severe in this regard.

The garment manufacturers presented a number of observations respecting Canadian woollen and worsted fabrics. Several dealt with the question of quality. It was stated that the quality of a fabric is determined initially by the quality of the raw wool. The garment manufacturers argued that since domestic fabric producers use only a limited number of qualities of raw wool that it is impossible for them to produce a full range of fabric qualities. In addition, the garment manufacturers argued that domestically-produced fabrics did not always meet industry quality control standards. In this regard, one garment manufacturers's records showed that the rejection rate for domestic fabrics was about 6 to 7 per cent compared to about 3 per cent for imported fabrics.

On the question of exclusivity the garment manufacturers noted that the economics of fabric production are geared to producing long runs of a few fabrics. They stated that there are approximately 116,000 looms worldwide, of which about 450 are in Canada. It is impossible, therefore, for Canadian fabric mills to produce the number of patterns and qualities available on the world market.

In framing their recommendations the men's garment manufacturers recognized that tariff policy could not include consideration of exchange rate fluctuations and they argued that the present tariff structure is not at the heart of the problem of the Canadian woollen fabric manufacturers. The men's garment manufacturers argued that the CTI proposal to delete the $1.10 maximum and change the rate of duty for 53215-1 to an ad valorem rate of 17.5% would have a devastating effect on the manufacturers of men's fine clothing. They also denied that the temporary tariff items were abused by manufacturers using such imported fabrics to produce women's wear. Finally, the men's garment manufacturers stressed that their industry neither wanted nor needed government subsidies.

The associations proposed elimination of the duties on fabrics not currently produced in Canada. These are fabrics that contain specialty wool or hair, worsted fabrics spun from fine yarns (70's and up), all fabrics used

for fine tailored topcoats and overcoats, Donegal tweed, most fabrics that are classified under the temporary items 53245-1, 53246-1, 53247-1, and 53250-1, and fabrics whose chief part by weight is natural fibres such as silk and linen and containing wool. To implement these proposals, the associations suggested the creation of the following new tariff items.

(1) 5321X-1 Woven fabrics composed of yarns spun on the worsted system containing not less than 30% by weight of wool or hair $1.10/lb

(2) 5322X-1 Woven fabrics composed of at least 75% by weight of natural fibres other than wool and containing a minimum of 10% by weight of wool or hair ......Free

(3) 5324X-1 Woven fabrics, composed of yarns spun on the woollen system containing not less than 30% by weight of wool or hair, for use in the manufacture of men's and boys' suits, vests, sport coats and blazers, dress slacks and fine tailored topcoats other than car coats and duffle coats ....Free

The associations' assessment of the impact of these proposals is that the cost of finished garments would be reduced as a result of a decrease in the cost of fabrics. This would allow the Canadian garment manufacturers to become more competitive against imports. It would, furthermore, prevent further declines in garment industry employment, would reduce the wholesale price of garments and lower prices to consumers, and would make exports of Canadian garments more competitive.

The associations reiterated their position on tariff item 53215-1, and the five temporary items in their second brief for the May 3 hearing. The associations opposed any increases in maximum value of $1.10 per pound under T.I. 53215-1 and urged the Board to make temporary items 53245-1, 53246-1 and 53247-1 statutory with rates of Free. They argued that temporary items 53250-1 and 53255-1 should also be made statutory at Free and without the price breaks. The associations recommended that if their proposals in respect of items 53215-1, 53245-1, 53246-1, and 53247-1 were not accepted by the Board and if a remission program was introduced then the program should be modified to maintain the competitive balance within the clothing industry. The associations were not keen about the proposal for duty remission but they did not wish to reject it under any circumstances. The associations proposed that the Board should consider leaving all current duties in place while making the temporary items statutory and removing price breaks and recommend a remission program with the modification that entitlement to the pool of duties rebatable be granted to the wool fabric weavers. This would not alter the competitive position of the clothing industry who would continue to import over the existing applied rates of duty.

In addition, the associations recommend the removal of duties on yarns.

In response to the CTI's new proposals at the May 3 hearing the associations opposed any duty increase for T.I. 53215-1 and they disagreed with the CTI's proposal to delete temporary items 53245-1, 53246-1, 53247-1, 53250-1, and 53255-1. They reminded the Board that, by the CTI's own testimony at the first hearing, the administration of the proposed new item under 53215-2 would be impossible. Finally, the associations continued to oppose any subsidy to fabric users.

Merit

Merit's brief for the May 3 public hearing expressed concern that the Board was seriously considering a significant increase in duties which would be highly detrimental to Merit. This concern was due to the fact that the domestic mills have been unable, and are expected to remain unable in the future, to supply their fabric needs from point of view of quality, fashionability, variety and service. In the medium-high priced men's clothing market, where Merit competes, these fabric needs are essential for consumer satisfaction. In the medium-high priced market the consumer demands garments of high quality fabrics with fashionability and flair selected from a broad variety of looks. The use of domestic fabrics to compete in this market would result in disastreous sales losses for Merit, as well as for the overall Canadian men's fine clothing industry. Therefore, the marketplace requires higher quality fabrics than are domestically produced even if tariff rates were to be increased. Neither Merit nor the industry is sufficiently profitable to absorb such cost increases and the increased costs would have to be passed on to the consumer. The staff appreciation paper recognized that consumer demand in the men's clothing market is highly inelastic and that there is resistance to price increases. The net effect of a retail price increase would be a further decline in consumer demand. Any domestic price increases would tend to encourage even greater imports, particularly from Europe.

Montreal Dress and Sportswear Manufacturers' Guild, Montreal Fashion Apparel Manufacturers' Association, Montreal Cloak and Suit Manufacturers' Guild, Toronto Dress and Sportswear Manufacturers' Guild, Toronto Cloak and Suit Manufacturers' Association

The participating ladies' wear associations at the January hearing represented manufacturers of ladies' dresses, sportswear, trousers, slacks, suits, cloaks, and outerwear. The industry currently employs about 25,000 production workers. The industry is so highly fashion oriented that the members of the association always have to have something new and different to show in order to survive and to grow. Hence, the industry needs variety and exclusivity in fabrics. There are hundreds of ladies' garment manufacturers in Canada who compete intensively and it is extremely difficult to do this with only the fabrics available from the few mills now operating in Canada. The associations questioned whether the few remaining fabric manufacturers can

economically produce the variety needed. The associations argued that the weavers cannot do it economically because the question of variety must be linked to the question of exclusivity, and to achieve exclusivity fabric manufacturers must be prepared to supply a few pieces only of a style. This quantity is generally much less than fabric producers' minimum economic run.

The major Canadian producer of worsted fabrics does not supply significant quantities to manufacturers of ladies' wear. The vast preponderance of Canadian woollen fabric production weighs over 9 oz per square yard and is currently protected by tariffs in excess of 25 per cent. The great bulk of the woollen fabrics imported by ladies garment manufacturers weighs less than 9 oz per square yard. Therefore, there is no reason to believe that higher tariffs on fabrics under 9 ounces per square yard will generate the variety that is required by the association's members.

The apparel industry is coming under increased pressure from import competition, particularly at the upper end of the price and quality scales. In addition, increased consumer price resistance is imposing great pressure on costs. At the higher quality and price levels there are demands from retailers for higher mark-ups. The strong Canadian dollar has made Canadian apparel manufacturers more vulnerable to import competition from Europe. Recently, apparel imports have been growing much faster than consumption and thereby eroding the market share held by Canadian manufacturers. To make matters worse, domestic competition in this sector is increasing as a number of men's clothing manufacturers have begun the production of ladies' structured clothing.

To increase fabric duties at a time when Canadian garment producers' share of their market is declining will increase pressures on apparel manufacturers from all sides simultaneously. The fabrics not available from Canadian mills are covered by temporary tariff items 53245-1, 53246-1, 53247-1, 53250-1, and 53255-1 and benefit only the men's wear industry. This is unfair and discriminatory against ladieswear manufacturers, and their associations urged that the benefits of these temporary tariffs be extended to all apparel manufacturers.

Increasing individual tariffs or the general level of tariffs on woollens and worsteds will not generate additional business for Canadian fabric producers. Tariff increases would force apparel manufacturers to become importers, and the weavers' customer base would be eroded as a result. For example, tariff increases on woollen and worsted fabrics under the tariff item 53215-1 would create problems for apparel manufacturers which will outweigh by a very significant margin the benefits, if any, which may be created for woollen and worsted fabric manufacturers.

The associations recommended that the five temporary tariff items be made statutory without the price breaks and without the end-use restrictions. Further, the rate of duty for 53215-1 should not be changed but the rates of duty on worsted fabrics weighing more than 9 oz per square yard should be reduced to Free and the MFN rates for fabrics containing hair should

be reduced to Free. In addition, white and pastel worsted fabrics not produced in Canada should also be granted Duty Free entry. Finally, the associations were opposed to any direct subsidization of Canadian garment producers but would support tariff rate quotas for GPT sources.

The associations' second brief for May hearing re-emphasized their position on item 53215-1 and the five temporary items. In addition, the associations questionned the usefulness of the remission program discussed in the staff appreciation paper. The associations opposed any increases in the maximum duty under tariff item 53215-1 since it will have its greatest adverse impact on those companies most under pressure from low-cost import competition.

Regarding temporary items 53245-1, 53246-1, and 53247-1, the associations felt that these items are discriminatory against the ladies wear sector. The associations did not ask to have these benefits taken away from men's sector but sought extension of these benefits to the ladies garment sector.

For temporary items 53250-1 and 53255-1 the associations supported the staff proposal to make these items statutory and duty free and argued that the Board should recommend that these items be available to all users of these fabrics.

The associations supported duty free treatment for yarn.

Finally, the associations saw some benefits in a duty remission program. However, those manufacturers who use little or no Canadian fabric would face additional costs with little scope for recovering any additional duties. If such a program were proposed it would be essential that it be fair and equitable.

Morwill Clothing Mfg. Co. Ltd.

Morwill submitted a brief for the May hearing arguing that the staff had seriously over-estimated both the ability and the inclination of the Canadian worsted producers to improve their quality and service in return for additional protection. Morwill's experience in recent years did not inspire confidence in this result.

The company believed that an increase in the specific maximum duty for 53215-1 would make Morwill non-competitive across a broad range of current production. Further, because of Morwill's inability to rely on domestic worsted fabrics, the company did not expect that a duty remission program would result in any significant benefits.

The National Wool Textile Export Corporation - United Kingdom

In its capacity as the trade association responsible for the promotion and protection of the export trade of the British wool textile industry, the Corporation made a submission to the Board for the January 31 hearing

recommending, inter alia, that consideration should be given to reducing or eliminating duties on types of fabrics which are not, or cannot economically be, made in Canada. The Corporation also recommended with respect to tariff item 53215-1 that any increase in the maximum specific duty should be accompanied by concessionary rates of duty on higher-priced worsted fabrics, on similar lines to those already applied to woollens.

The Corporation submitted a second brief for the May hearing recommending that consideration be given to the advantages to Canadian carpet and knitwear manufacturers of obtaining supplies of speciality yarns not made in Canada on a duty-free basis. They supported duty-free entry for melton cloth for tennis balls. The Corporation recommended that temporary items 53245-1, 53246-1 and 53247-1 should be permanently incorporated into the tariff, made applicable equally to fabrics for women's wear and that the minimum value provisions should be revised downwards. They suggested that the projected increase in the specific maximum duty applied under tariff item 53215-1 to $1.60 per lb. should be re-examined in the light of the lower, original protection levels and revised downwards. Finally, they suggested that the proposed "neutralisation" of the duty increases through a system of duty remission was unlikely to produce the intended effect.

Parker Brothers Textile Mills Ltd.

Parker Brothers submitted a brief for the May 3 hearing recommending that all imports of greige goods and natural worsted yarns should be duty free since the company is without a domestic source of supply. Second, imported finished fabrics, should be subjected to tariffs as set out by the Tariff Board. Finally, high priced worsted fabrics in the $12.00-$15.00 per metre range which are not manufactured in Canada should enter duty free.

Peerless Clothing Inc.

Peerless Clothing submitted a brief for May 3 hearing stating that if some of the proposals in the staff appreciation paper were accepted and implemented the impact on Peerless would be extremely negative. Peerless manufacturers men's fully tailored suits and odd pants, with the suits selling in the popular price ranges at retail under $200.00. This segment of the market is highly competitive and particularly sensitive to imports from the Far East and state controlled countries. The specific maximum of T.I. 53215-1 and the temporary tariff items have enabled the company to hold its own against imports.

Peerless argued that the domestic fabric industry no longer serves the needs of their company and they are not convinced that based on current and past experience the Canadian mills will be able to meet a significant portion of their needs even at higher prices made possible through increased duties. The company did not anticipate using the remission program to offset higher fabric costs.

A better solution would be to maintain the current tariff rates at their current level and distribute the duties collected directly to the fabric manufacturers.

Premier Brand Clothing Co. Ltd.

Premier Brand's brief for the January 31 hearing supported the men's clothing manufacturers' associations of Ontario and Quebec. In the past Premier Brand has not been a major user of imported fabric but has recently decided to seek a new niche in the market using more imported and less Canadian fabric. Premier Brand must import woollens because Canadian production is very limited. As for worsteds, they import fabrics using fine count yarns and of a finer quality than those produced in Canada. These imported worsteds are more expensive than domestic fabrics. Contrary to what might be expected, Korean worsteds, made of finer count yarns, are more expensive than domestic cloths. Korean styling is superior to the domestic mills. Premier Brand does buy domestic worsted flannels, polyester and wool flannels, polyester and wool hopsacks, fancy worsted suitings and some fancy jacketing.

Premier Brand is trying to increase Canadian purchases by working with the mills but has not been successful even though the company did not require rigid price specification. As for woollens, it is difficult to increase Canadian fabric purchases because there is presently only one mill (Artex) which produces the type of cloth Premier might purchase. Artex uses a minimum number of yarns and yarn shades and requires particularly long runs to make the mill viable. In Premier's experience the Canadian mills will sell minimums of 120 meters per style of their open ranges but they are never sure how many other manufacturers are buying the same fabric.

If imported fabrics become more expensive through tariff increases, Premier Brand would lose a portion of their market for garments. To increase import costs when there are limited domestic alternatives would seriously impair their competitive position and viability.

Premier Brand submitted a brief for the May 3 hearing which disputed the staff appraisal statement on page 9 that "the fundamental issue before the Board in this reference is the requirements of the Canadian woollen and worsted industry". Premier Brand disagreed with this conclusion because no reference is made to the plight of the men's fine clothing industry. The company argued that the needs of the fine men's clothing industry can be summed up in three basic issues - variety, quality and service and an intangible, fashion. With regard to variety, the fabrics made in Canada are limited. Premier Brands' competitors, the foreign makers of imported garments, have access to looms throughout the world numbered at about 116,000. The domestic weavers admit to 340 looms. Thus, for the domestic fabric industry to market a large variety of fabrics would fragment their production to small non-profitable runs.

Premier Brand still purchases a considerable volume of fabrics domestically but this has been declining in the past two years and will continue to do so. In its new market position as a fashion producer to men's fine clothing shops its line must show a wider variety of fabrics and colors and there is a definite preference by retailers for imported cloths.

Progress Brand Ltd.

In its submission for the January 31 hearing Progress Brand supported the submission of the men's clothing manufacturers' associations of Ontario and Quebec. The company produces at the higher end of the price scale and uses a high proportion of imported fabrics. No domestic woollen or worsted fabrics are purchased for the company's suit and jacket lines. However, the company purchases considerable quantities of Canadian worsteds for trousers.

In selecting fabrics the company considers quality, variety, styling, uniformity and consistency, delivery, flexibility of sampling procedures, availability of repeats on a timely basis, and the professionalism, integrity and reliability of the supplier. Although the company has had limited experience with Canadian suppliers, they have found that product quality is inconsistent and that the suppliers are unwilling to admit fault or accept responsibility.

The central target of the Canadian fabric industry's demands to the Board appears to be the $1.10 per pound maximum MFN amount of duty payable under tariff item 53215-1. Fabrics purchased by the company under this tariff item are very expensive compared to domestic fabrics. The implications of increased tariffs are horrendous as Progress Brand's commercial viability would be impaired by both consumer resistance to higher prices and by increased imports of finished suits.

The company submitted a brief for the May 3 hearing, reiterating its general position and provided some observations on the duty remission program. The company argued that the perception that increased duties would persuade them to buy more Canadian fabrics is totally false because it is not possible for the Canadian mills to make the qualities, variety and small quantities needed. An increase in duties would only result in higher retail prices and garment manufacturers would lose further market share to imports.

The company hoped to continue to purchase basic, plain worsted fabrics from domestic manufacturers for pants. Consequently, the company could make use of the remission program. With regard to woollens, the company doubted that it would ever be able to buy sufficient quantities from domestic sources to make the remission program useful. The company was concerned, however, that a remission program would be cumbersome and excessively complicated to administer.

Samuelsohn Ltd.

Samuelsohn, in its submission for the January 31 hearing, supported the submission of the men's clothing manufacturers' associations of Ontario and Quebec.

Samuelsohn produce men's suits in the highest price range. The company makes a durable garment with a classic and traditional style. The fabrics used by the company are very expensive, well beyond the quality and range of prices of domestic fabrics, and imports all its worsted fabrics because they cannot find what they require in this country.

In the past, the only domestic fabric that the company purchased in any sort of quantity was a coarse worsted, which they bought from Montrose Worsted Mills before Montrose went out of business. The company has never been able to buy domestic fabrics with a fine look. The first consideration in determining a choice of fabric is quality and style. Quality in terms of the feel of the cloth which is difficult to define in words. The style can also refer to the quality as they are closely related, even if it is a plain flannel. Variety is the next consideration. Price is important, but they look first for quality and then worry about price. The price has to be competitive, but for the Samuelsohn, it is not the prime consideration.

The company finds that foreign sources can meet their need to buy in small quantities, perhaps only 50 yards. Great Britain offers small quantity minimums for woollens, but not for worsteds and the minimums required by Canadian mills are much greater than those of European mills. Japan and Korea also have relatively large minimums.

Samuelsohn was particularly concerned about the prospects of higher duties on high priced fabrics because of the price resistence from retailers. Samuelsohn would like to see no duties on fabrics which are above the Canadian price range. These tariffs on high priced fabrics serve no useful purpose but are a severe disincentive to production in Canada of high quality garments.

In a second brief for the May 3 hearing the company argued that the proposed increase in the rate for T.I. 53215-1 was totally unacceptable to the company. Any increase in tariffs has a tremendous impact since all the fabrics Samuelsohn buys are imported, production costs would rise and the consumer would have to pay more. Any increase in tariffs would make the company less competitive with European clothing imports. Although high priced imported men's clothing was a small proportion of total garment imports, they are large in relation to Samuelsohn's market. The proposed tariff increase would put the company and the jobs of 300 employees in jeopardy.

Samuelsohn also argued that the company would not be able to take advantage of the proposed remission plan. As a result, the company would lose on both counts - increased tariffs and no remission. The company would be less competitive against imported clothing and would also face greater competition from other Canadian manufacturers who may benefit from the remission program. Samuelsohn found this totally unfair and discriminately.

S. Cohen Inc.

S. Cohen Inc. submitted a brief in response to the staff appreciation paper for the May hearing.

The purpose of a tariff was to protect an industry but raising the duty on imported fabrics missed the point because the company was purchasing many fabrics outside of Canada in order to survive in a fashion industry. The garment industry required select and certain looks in fabrics that have never been produced in Canada and in all probability would never be produced in Canada. It would be unfeasible for one garment factory to manufacture a range of garments from the low-end $100.00 retail suit to the $600.00 top-of-the-line suit, and it is not realistic to expect that the Canadian fabric mills can produce a selection anything like that available on the world market.

S. Cohen have experienced constant difficulties with domestic fabrics over the years and has often been forced to reject pieces because of mis-weaves, slubs, poor finishes, width inconsistency, etc. Delivery is also a problem.

The impact of raising the tariff from $1.10 to $1.60 would be much greater than the 50 cent figure implies since labour and all other costs are rising each year. In order to remain in the market the company must carefully moniter all components of cost. Canadian manufacturers are in serious competition with foreign producers, often competing for a specific price point in a major retailers product range. If the domestic garment manufacturers go even 50 cents over what retailer considers to be his maximum he will simply go abroad to get the garment he wants.

The impact at the consumer level will also be greater than is immediately apparent. One must take into account the fact that the retailers will add their mark-up of at least 100-110%. In the final analysis the consumer will end up paying a higher price merely because a Canadian mill did not have the capacity to produce the fabric he demanded.

The Taiwan Textile Federation (TTF)

The Taiwan Textile Federation recommended at the January hearing that the existing duty under tariff item 53215-1 should be maintained, that the tariff on wool yarns should be removed, and that the tariff on worsted fabrics weighing more than 9 ounces should be eliminated.

Weston Apparel Manufacturing Co.

Weston Apparel submitted a brief prior to the May hearing which contained a confidential response to the earlier staff questionnaire and also provided some general remarks on the availability of domestic fabrics. Weston Apparel had planned to produce a major line of garments using a high proportion of domestic fabrics. The fabric order was placed with the mill in June, 1983 for delivery in November but late delivery resulted in substantial problems for the company.

CHAPTER IV

ANALYSIS OF THE EVIDENCE AND ALTERNATIVE SOLUTIONS

The genesis of this reference was the observation by the Textile and Clothing Board (TCB) in August 1983 that the intended effect of the $1.10 per pound maximum duty for tariff item 53215-1 had been significantly eroded in real terms since its introduction in 1962.(1) The TCB recommended that the tariff structure applicable to imports of woollen and worsted fabrics should be reviewed to ensure that it still corresponds to the purposes for which it had been developed.(2) When this reference to the Tariff Board was received in October 1983 it was decided to adopt the significant and extensive industry analysis set out in the TCB report. This decision was noted in the Staff Discussion Paper and Questionnaire and was concurred in by all interested parties. The data and information collected by the Board during the course of this reference confirmed the TCB data and analysis and extended the trends. The evidence before the Board showed further overall contraction of the Canadian woollen and worsted fabric sector in size,(3) output, employment, domestic market share and capacity utilization.

The tariff problem identified by the TCB was that the protective effect of the $1.10 maximum for item 53215-1 had declined substantially since 1962 due to inflation. The Board's analysis has confirmed this erosion. The MFN rate for item 53215-1, 25 p.c. plus 25 cents per pound to a maximum of $1.10 per pound was established in 1962. The 25 cent specific element was eliminated during the MTN and will be phased out by 1987. The original intent of the $1.10 maximum had been to provide some relief to garment manufacturers for that small portion of total consumption of wool fabrics consisting of high quality and expensive fabrics, particularly worsted fabrics, which were not made in Canada.

By 1983 the $1.10 maximum had come to be the effective rate of duty for the bulk of the imports under tariff item 53215-1. The 1983 MFN compound rate of 25 p.c. plus 16.7 cents per pound and the $1.10 maximum were equivalent when the price of a wool fabric was $3.73 per lb, or $2.10 per square yard weighing nine ounces. Almost all imports under tariff item 53215-1 were priced higher than that. In particular, the $1.10 maximum, by that time, applied to the majority of imports which were comparable in price and quality with domestic production. Analysis of 1983 import data showed that the average rate of duty under 53215-1 in that year was 14.4 p.c. for woollen fabrics and 11 p.c. for worsted fabrics.

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(1) Textile and Clothing Board, Woollen and Worsted Fabrics, August 1983, pp. 86-87.
(2) op. cit., p. 89.
(3) It was announced in the Globe and Mail on June 15, 1984, that Silknit Ltd. was going out of business. Silknit Ltd. was formally represented in this reference by the CTI.

Over time this erosion of protection has contributed in a steady decline in the number of domestic worsted producers and in a reduction of the varieties and qualities produced, so that domestic worsted output is concentrated almost exclusively in fabrics weighing less than nine ounces per square yard for use primarily in the manufacture of men's and boys' suits, slacks and jackets. The number of woollen fabric weavers has diminished as well, with production being concentrated now in fabrics weighing more than nine ounces per square yard where the competing imports were dutiable at 25 p.c. plus 16.7 cents per pound in 1983, and which are used primarily in the manufacture of ladies' coats. Production of woollens weighing less than nine ounces, and, therefore, subject to the erosion of protection under 53215-1 declined by 59% between 1981 and 1983 alone.

The erosion of protection due to the $1.10 maximum was much greater for the higher-priced than the lower-priced imports. This is illustrated by the following Table.

TABLE 1

EROSION OF PROTECTION

Import Price Per Sq. Yard Weighing 8 oz.	Ad Valorem Equivalent of 1962 Maximum (per lb)	Ad Valorem Equivalent of 1983 Compound Rate	Extent of Erosion
$2.20	25.0 p.c.	28.8 p.c.	-3.8 p.p.
$3.30	16.7 p.c.	27.5 p.c.	10.8 p.p.
$4.40	12.5 p.c.	26.9 p.c.	14.4 p.p.
$6.60	8.3 p.c.	26.3 p.c.	18.0 p.p.
$8.80	6.3 p.c.	25.9 p.c.	19.6 p.p.
$9.90	5.6 p.c.	25.8 p.c.	20.2 p.p.
$13.20	4.2 p.c.	25.6 p.c.	21.4 p.p.

While it may be surmised that the maximum duty provision of tariff item 53215-1 was originally introduced to provide preferential access for some very expensive fabrics not produced domestically, the Board concluded that the breadth and depth of erosion of protection which has occurred since was not intended and that some restoration of protection lost is justified.

The CTI Proposals

The CTI proposed that the provision of tariff item 53215-1, which limits the maximum amount of duty that can be collected under the MFN Schedule for this item to $1.10, be deleted and that the MFN rate of duty be set at 17.5 p.c. The grounds for this proposal were that the inflation in the prices of wool fabrics over the past decade had greatly reduced the ad valorem equivalent of the maximum, that the full extent of the erosion in the level of protection was not intended and that this loss should be restored, at least in part.

The average level of duty paid on imports under tariff item 53215-1 in 1983 was 12.5 per cent compared with 24.5 per cent in 1972, an average reduction in protection on woollen and worsted fabrics combined of 12 percentage points. The corresponding figures separately for woollen and worsted fabrics weighing nine ounces and less per sq. yard are 25 and 14.4 per cent and 24 and 11 per cent respectively, indicating an erosion in the level of protection of 10.6 and 13 percentage points.

The CTI proposal of an MFN rate of 17.5 p.c. would result in an average increase in the level of protection for all imports under tariff item 53215-1 of 5 percentage points. If, as indicated by data provided by Canadian garment manufacturers, 33.3 per cent of garment production costs comprises the cost of the fabric, then the additional protection requested by the CTI would have the effect of adding, on average, 1.7 per cent to total garment manufacturing costs.

The impact would vary greatly depending on the price of the wool fabric used by individual garment producers. Manufacturers of less expensive garments using low-priced fabrics might not face any increase in fabric costs and could gain from the CTI's first proposal. On the other hand, manufacturers of expensive garments using the most expensive fabrics could face an increase in duty costs of 13.3 percentage points which would translate to a 4.2 per cent increase in total garment production costs. (see Table 2)

As there is currently no Canadian production of the most expensive worsted fabrics weighing nine ounces and less per square yard and most domestic worsted fabric output of this weight category is concentrated in the medium and lower price range, the CTI proposal would increase protection the least where domestic production is greatest and the most where there is little or no domestic production. However, it was argued that the unintended erosion of protection has also been of greatest benefit to users of these high-priced fabrics.

TABLE 2

T.I. 53215-1: EFFECT OF THE FIRST CTI PROPOSAL

Import Price Per Sq. yard Weighing 8 oz.	Ad Valorem Equivalent of 1962 Maximum (per lb)	CTI Proposal	Change in Protection	Impact on Garment Mfrs.
$2.20	25.0 p.c.	17.5 p.c.	- 7.5 p.p.	-2.0%
$3.30	16.7 p.c.	17.5 p.c.	+ 0.8 p.p.	+0.2%
$4.40	12.5 p.c.	17.5 p.c.	+ 5.0 p.p.	+1.5%
$6.60	8.3 p.c.	17.5 p.c.	+ 9.2 p.p.	+2.8%
$8.80	6.3 p.c.	17.5 p.c.	+11.2 p.p.	+3.5%
$9.90	5.6 p.c.	17.5 p.c.	+11.9 p.p.	+3.8%
$13.20	4.2 p.c.	17.5 p.c.	+13.3 p.p.	+4.3%

The CTI also proposed that the temporary tariff items 53245-1, 53246-1 and 53247-1 be discontinued and that the woollen fabrics as described in those items revert back to tariff items 53215-1, 53205-1 and 53210-1 respectively. This would raise the rate of duty for goods entering under temporary item 53245-1 by 12.0 percentage points, i.e. from 5.5 p.c. to 17.5 p.c., the rate proposed by the CTI, and by 19.8 and 19.2 percentage points for the woollen fabrics described in temporary items 53246-1 and 53247-1. This would add considerably to the cost of production of garment manufacturers using these fabrics. It is estimated that total garment costs would rise by 3.8 per cent, 6.2 per cent and 6.0 per cent respectively.

The combined impact of the CTI proposal regarding tariff item 53215-1 and the three temporary items would raise the weighted average rate of duty on all wool fabrics described under tariff items 53205-1, 53210-1 and 53215-1 by 3.8 percentage points. The weighted average rate of duty on wool fabrics weighing at least 12 ounces per square yard would advance by some 1.3 percentage points, attributable to the relatively small amount of imports under item 53247-1 which would be dutiable at 26.7 p.c. upon integration under item 53210-1. All wool fabrics weighing less than 12 and more than nine ounces per square yard would, on average, face an increase in duty of 1.2 percentage points, the result of deleting tariff item 53246-1 with its relatively small amount of imports. Deleting tariff item 53245-1 would raise the average rate of duty on wool fabrics of nine ounces or less per square yard under tariff item 53215-1 from 5 percentage points, the result of the CTI's main proposal, to 5.5 percentage points.

If, as would likely happen, the increased protection were passed on to garment manufacturers, the total garment production costs with respect to all relevant wool fabrics would, on average, go up by 1.0 per cent, and for each of the three weight categories, beginning with the lightest, by 1.7, 0.4, and 0.5 per cent respectively. These averages are realistic indicators of the cost impact of the CTI proposal only if individual garment manufacturers use the full range of wool fabrics, or the full range of a certain weight group, in their operations, thus allowing the increased cost to be spread more widely. The extent of specialization in apparel manufacture suggests, however, that the opportunity for spreading the cost impact is limited, and that therefore the impact on garment makers using light weight fabrics and those catering to the men's market for woollen garments, those primarily affected by the CTI proposal, will be substantially higher than suggested by these averages.

In addition to these proposals, the CTI supported the inclusion of the wool sliver tariff item (53010-1) and the argument that the rate of duty should be reduced to Free as soon as possible. However, the integrated fabric producers opposed any reduction in the rates of duty for rovings and yarns. The fabric producers who import all of their yarn did not comment on this proposal.

The overall effect of the CTI's proposals are summarized below in Table 3.

TABLE 3

FIRST C.T.I. PROPOSAL, CHANGES IN RATES OF DUTY AND COST IMPACT, 1983[1]

Tariff Item	Rates of Duty: 1983 Rate of Duty	Rates of Duty: First C.T.I. Proposal	1983 Imports	Impact on Rates of Duty	Impact on Duty Collected
	p.c.	p.c.	-$'000-	-percentage points-	-$'000-
Wool					
53010-1	1.0	Free	14,866.8	- 1.0	- 155.5
Impact on Yarn Cost				(- 0.25)	
Yarns					
53105-1	6.8	6.8	758.7	N.C.	N.C.
53110-1	12.1[a]	12.1[a]	4,926.6	N.C.	N.C.
53120-1	12.1[a]	12.1[a]	1,292.9	N.C.	N.C.
Weighted Average	11.6	11.6		N.C.	N.C.
Impact on Fabric Cost				(N.C.)	N.C.
Fabrics					
53205-1	28.5[a]	28.5[a]	26,085.5	N.C.	N.C.
53210-1	28.0[a]	28.0[a]	10,259.4	N.C.	N.C.
53215-1	12.5[a]	17.5	50,850.8	+ 5.0	+2,527.4
53220-1	18.3	18.3	7.9	N.C.	N.C.
53230-1	20.0	20.0	752.1	N.C.	N.C.
53245-1	5.5	17.5	4,185.1	+ 12.0	+ 502.2
53246-1	6.5	26.3[a]	1,849.3	+ 19.8	+ 366.5
53247-1	7.5	26.7[a]	859.5	+ 19.2	+ 164.9
53250-1	Free	Free	222.3	N.C.	N.C.
53255-1	Free	Free	281.8	N.C.	N.C.
Weighted Average	18.1	21.8		+ 3.7	+3,561.1
Impact on Garment Mfg. Cost				(+ 1.0)	

(1) The impact of reduction to Free for sliver under 53010-1 on yarn spinning costs is derived on a scale factor of .25, based on the fact that sliver costs comprise 25% of the total cost of producing yarn. The cost impact of the garment manufacturing industry is derived on a scale factor of .333 based on the fact that fabric cost comprises, on average, 33.3% of the total cost of garment production.

(a) Ad valorem equivalent of duties collected.

N.C.: No change

At the May hearing the CTI presented an alternative solution for item 53215-1. It proposed to split this item into one covering all worsted and virgin wool woollen fabrics at a rate of 25 p.c. with a maximum duty of $1.60 per pound with a minimum annual average ad valorem rate of duty for this item of 17.5 p.c., as contained in the staff appraisal,[4] and a second item for woollens manufactured from reprocessed wool, dutiable at the current rates for these particular fabrics, adjustable in the future in a similar manner as the wool fabrics under the first item. This proposal, which would have resulted in no change in the rate of duty for fabrics using reprocessed wool, consequently would have resulted in a somewhat smaller increase in the average level of protection for item 53215-1 than under its first proposal.

Earlier evidence stated that only about three laboratories in the world were capable of conducting conclusive tests as to whether fabrics are made from virgin or reprocessed wool. In addition, the fabric manufacturers had already expressed concern that Customs officials obviously had had difficulties administering the existing woollen tariff items. The Board appreciated the CTI's effort to minimize any adjustment to tariff item 53215-1 but concluded that the administrative burden and probable costs of implementing a new tariff item for woollen fabrics manufactured from reprocessed wool outweighed any benefits.

The Garment Manufacturers Proposals

The clothing manufacturers initially sought retention of the $1.10 maximum duty for item 53215-1, and the reduction to Free and permanent status for the three temporary items 53245-1, 53246-1 and 53247-1. Subsequently the men's garment makers submitted a complete restructuring of the fabric tariffs with an extensive reduction in rates of duty for yarns as well as fabrics.

The mens garment industry proposed to the Board that the rates of duty for yarns should be reduced to Free and that all the fabric tariff items should be consolidated into three new items.[5] The garment manufacturers did not provide any analysis of the likely impact of their proposals. The Board's analysis of this proposal is presented below, in Table 4.

TABLE 4

MEN'S GARMENT MANUFACTURERS' PROPOSAL, CHANGES IN RATES OF DUTY AND COST IMPACT, 1983[1]

Tariff Item	Rates of Duty: 1983 Rate of Duty	Rates of Duty: Men's G.M. Proposal	1983 Imports	Impact on Rates of Duty	Impact on Duty Collected
	p.c.	p.c.	-$'000-	-percentage points-	-$'000-
Wool					
53010-1	1.0[a]	Free	14,866.8	- 1.0	- 155.6
Impact on Yarn Cost				(- 0.25)	

(4) Staff Appreciation of the Evidence and Issues, p. 30.
(5) Supra, p. 26.

Tariff Item	Rates of Duty: 1983 Rate of Duty p.c.	Rates of Duty: Men's G.M. Proposal p.c.	1983 Imports -$'000-	Impact on Rates of Duty -percentage points-	Impact on Duty Collected -$'000-
Yarns					
53105-1	6.8	Free	758.7	- 6.8	- 51.6
53110-1	12.1[a]	Free	4,926.6	- 12.1	- 598.5
53120-1	12.1[a]	Free	1,292.9	- 12.1	- 156.2
Weighted Average	11.6	Free		- 11.6	- 806.3
Impact on Fabric Cost				(- 5.7)	
Fabrics					
5321x-1	14.2	12.3[b]	34,623.8	- 1.9	- 682.7
53205-1	27.4[a]	15.7[b]	5,053.1	- 11.7	- 591.4
53210-1	28.5[a]	23.1[b]	1,679.8	- 5.4	- 91.3
53215-1	11.0[a]	11.0[b]	27,890.8	N.C.	N.C.
5322x-1	25.4	Free	64.8	- 25.4	- 16.5
53205-1	27.8[a]	Free	19.5	- 27.8	- 5.4
53210-1	27.1[a]	Free	38.1	- 27.1	- 10.3
53215-1	10.1[a]	Free	7.2	- 10.1	- 0.7
5324x-1	20.3	Free	59,970.2	- 20.3	-12,162.2
53205-1	28.8(a)	Free	21,032.4	- 28.8	- 6,048.2
53210-1	27.9[a]	Free	8,579.6	- 27.9	- 2,397.7
53215-1	14.4[a]	Free	22,960.0	- 14.4	- 3,301.5
53245-1	5.5	Free	4,185.1	- 5.5	- 230.2
53246-1	6.5	Free	1,849.3	- 6.5	- 120.2
53247-1	7.5	Free	859.5	- 7.5	- 64.5
53250-1	Free	Free	222.3	N.C.	N.C.
53255-1	Free	Free	281.8	N.C.	N.C.
53220-1	18.3	18.3	7.9	N.C.	N.C.
53230-1	20.0	20.0	752.1	N.C.	N.C.
Weighted Average	18.1	4.6		- 13.5	-12,861.4
Impact on Garment Mfg. Cost				(- 3.8)	

(1) The impact of reductions to Free for sliver under 53010-1 on yarn spinning costs is derived on a scale factor of .25, based on the fact that sliver costs comprise 25% of the total cost of producing yarn. The impact of free entry for yarns on fabric production costs is derived on a scale factor of .55, based on the fact that yarn costs comprise 55% of the total cost of producing fabrics. The impact on the garment manufacturing industry is derived on a scale factor of .333, based on the fact that fabric costs comprise 33.3%, on average, of the total cost of producing garments.

(a) Ad valorem equivalent of duties collected.

(b) The Men's Clothing Manufacturers Association of Quebec and Ontario proposed $1.10 per pound and this represents the ad valorem equivalent of their proposal.

N.C.: No change

Under this proposal fabric manufacturers who import their yarn requirements would, on average, be able to reduce their fabric costs by 5.7 per cent. Spinners would, of course, lose their protection, consequently integrated spinning and weaving operations would thus benefit little or nothing, with the gain on weaving being offset by the loss on spinning. The average level of protection on fabrics would decrease from 18.1 p.c. to 4.6 p.c., a reduction of 13.5 percentage points. This would reduce garment manufacturers costs by 3.8 per cent. The impact of this proposal, in conjunction with the confidential financial reports submitted by the fabric manufacturers, led the Board to conclude that implementation of this proposal would result in the immediate demise of wool fabric production in Canada. In the Board's opinion, the overall purpose of this reference was to determine the level of protection necessary to ensure the long term survival of wool fabric production in Canada. Testimony throughout the inquiry supported the view of garment manufacturers that a healthy wool fabric industry in Canada would be of definite benefit to their industry. Therefore, no further consideration was given to the garment manufacturers' tariff proposals.

The Non-tariff Alternatives

The Minister's letter of reference implicitly recognized the possibility of a lack of concensus between the fabric producers and the garment manufacturers by suggesting that the Board might wish to consider, as an alternative to tariff protection, some other measures of assistance, such as a subsidy, to the fabric producers. In this regard the Board considered two alternative programs - a direct subsidy program and a duty remission program.

A subsidy program could be established with payment to either the fabric producers or the clothing manufacturers. The Board's analysis of a subsidy program for fabric producers demonstrated greater benefits for

clothing manufacturers than for fabric producers.[6] The industries intuitive responses to a direct subsidy program supported this analysis. Neither the fabric producers nor the clothing manufacturers wished to be the recipients of a subsidy although the clothing manufacturers stated that they would not object to a subsidy program for fabric producers. Since neither party supported a subsidy program for itself, the Board did not address the practical problems of how the parameters of such a subsidy program should be established.

For its part, the Board had serious reservations concerning the desirability and practicality of establishing subsidy programs aimed at the long-term production in Canada of an established product which is readily available on the world market. Such a subsidy program would be a marked departure from existing industry subsidy programs designed to support exploration, technological development, industry restructuring and marketing and trade development. On the basis of its analysis and judgment, supported by the weight of the evidence, the Board concluded that further consideration of a subsidy program to foster wool fabric production in Canada was unwarranted.

As noted, further consideration of a subsidy program would have involved the establishment of operating parameters regarding such factors as the total and per unit amount of the subsidy and conditions and timing of payment.

The Board also considered a duty remission program. The remission scheme considered would have entitled clothing manufacturers to claim duty remission on fabric imports in some relation to their purchases of domestic fabrics. The cost of such a program would be limited to the duties collected and the conditions for payment would be clearly established. Admittedly, such a program represents an economic carrot and stick solution but was considered as a method of providing some relief from higher fabric duties to the clothing manufacturers who had supported the need for a domestic fabric industry.

In response to the Board's general proposal of remitting duties on a unit of fabric imported for each unit purchased domestically, both the fabric producers and the garment manufacturers expressed serious reservations. The fabric industry argued that many clothing manufacturers currently purchase all, or at least a very high proportion, of their total fabrics from domestic mills. The remission program would provide a strong financial inducement for such clothing manufacturers to purchase a higher proportion of imported fabrics. The ability of the fabric producers to make up for such lost sales by selling more to clothing manufacturers who currently depend on a high proportion of imported fabrics was less certain. Even if the lost sales could be replaced, the end result would probably be a larger number of smaller orders resulting in reduced economies of scale and generally higher costs for

(6) Infra, Appendix 2.

domestic fabrics. In addition, garment manufacturers would have an incentive to import expensive fabrics to maximize their duty remission potential while purchasing the cheaper fabrics from domestic sources. Finally, there was no mechanism to ensure that the costs and benefits of the program would fall on the same mills. That is to say, a garment manufacturer purchasing Canadian worsted fabric might use the remission entitlement to import woollens currently purchased from Canadian mills. Therefore, the fabric producers stongly opposed the duty remission solution.

For their part, the clothing manufacturers also opposed the duty remission solution. While recognizing that a remission program would benefit some of their members, particularly those in the low and low-medium priced end of the market, who are protected by quotas as well as by tariffs and who also purchase substantial quantities of domestic fabric, those in the medium and high-priced garment market who import the majority of their fabrics would be less likely to benefit immediately from a remission program because domestic fabric production cannot meet all the qualities and varieties of fabrics needed by the higher priced garment manufacturers. The garment manufacturers argued that a remission program could not apply equally to all manufacturers and would result in market distortions at those price ranges where one manufacturer benefited from duty remission while another did not. For the longer term, they were sceptical whether the domestic mills could produce the higher quality fabrics with the degree of variety necessary to enable the medium- and high-price garment manufacturers to ever participate meaningfully in a remission program.

Thus, for different reasons, neither of the directly interested parties supported a duty remission program and the Board concluded that such a program would result in disruptions and dislocations for both fabric producers and garment manufacturers which would more than offset any possible benefits.

The garment manufacturers later proposed a variation of the remission scheme whereby all fabric duties would be paid into a fund from which payments could be made to fabric manufacturers. This would no longer be a remission scheme since duties could only be remitted to those who pay them in the first instance. The proposal is really a method of funding a subsidy program and of establishing the total amount of the subsidy. The problem is that, unlike the remission proposal where the remission of duties to garment manufacturers would be conditional on their purchases of domestic fabric, there would no longer be an incentive to purchase domestic fabric. This could lead in the extreme case to a situation where all wool fabrics were imported yielding a large subsidy fund for fabric producers to make fabrics for which there was no longer any demand. While recognizing that this extreme result would be unlikely, the Board concluded that this mix of a remission/subsidy scheme did not offer a viable long-term solution.

The Board accepted, based on its own analysis and the conflicting evidence brought before it, that finding a purely tariff solution for the problems faced by the wool fabric producers would be difficult when consideration had to be given to the impact of a tariff solution on the clothing manufacturers, particularly of mens' clothing manufacturers. For this reason the Board approached the search for alternative solutions with an open mind and without any prejudice. The Board's staff presented several alternatives and the directly interested parties were asked to suggest any other alternatives they could think of. It must be noted that none of the alternatives to a tariff solution were dismissed solely because of costs or administrative considerations.

However, after hearing the evidence and analysing the alternatives the Board concluded that any new general non-tariff program would be incapable of providing specific assistance given the different degrees of integration and output of the fabric mills and the broad range of the price and quality of Canadian garments. This conclusion convinced the Board that, if the problems presented in the Minister's letter were to be addressed, the solution lay within the context of the tariff itself.

The Structure of a Rational Tariff

There was no concensus between the fabric producers and the garment manufacturers regarding the major fabric tariff items under consideration (53215-1 and the five temporary items) on which the Board could build a generally acceptable package solution. This meant inevitably that a tariff solution which would satisfy one side of the industry would be unacceptable to the other or that the solution would contain elements which would be unsatisfactory to both sides. Faced with this conundrum the Board considered first the general principles of a logical and rational tariff structure and then analysed the economic evidence and other representations within this framework.

Although historically customs duties were the major source of government revenues, in recent times tariffs have been set and maintained in order to protect domestic production and employment. As a general rule this objective is met by applying higher rates of duty at each identifiable stage of production as the value added increases. This structure can be seen in the 1983 wool tariff schedule where slivers are dutiable at 3.3 cts. per pound, rovings and yarns from 6.8 p.c. to 12.1 p.c., light weight gray fabrics at 18.3 p.c., and woven fabrics generally at 25 p.c. However, as noted in the evidence, the general structure has broken down as between wool fabrics and garments where most fabrics are dutiable at 25 p.c. plus a specific element resulting in an effective rate of duty greater than the 25 p.c. duty for garments. This break in the tariff structure occurred some years ago when the rates of duty for garments were reduced without a corresponding reduction for the fabrics. Similarly, should light-weight gray fabric, presently dutiable at 18.3 p.c. MFN, retain that rate of duty, or should it as an intermediate good be dutiable at the same or even a lower rate than fabrics under 53215-1.

With the declining importance of tariffs for revenue it has become increasingly common to question the benefit of a duty on goods which are not made in Canada. For example, Canadian sheep producers produce for the red meat market and do not produce wool of the quality required for machine-spun woollen and worsted yarn. Since it was unnecessary to protect domestic sliver production the government agreed during the MTN to reduce the duty to Free. Further breaks in the normal tariff structure can occur through the introduction of end-use and temporary tariff items. For example, five of the items studied in this reference were temporary items with an end-use provision limiting them to woollen fabrics for use in certain men's and boys garments and with rates ranging from Free to 7.5 p.c., a rate well below those for yarns. Temporary items are introduced for a number of reasons, such as a lack of domestic supply, where the government is uncertain as to the longer term situation. Temporary tariff items are, however, introduced with a fixed expiry date at which time the government can reconsider the return of the goods in question to their parent item at a rate more in line with a normal tariff structure.

Analysis of the Evidence and Conclusions

1. Tariff item 53215-1 Woven fabrics composed wholly or in chief part by weight of yarns of wool or hair and weighing not more than nine ounces to the square yard, n.o.p.

As illustrated previously (Table 2) the 17.5 p.c. recommended by the CTI would involve increases in rates of duty and garment cost especially for the higher-priced wool fabrics covered by item 53215-1, which higher costs are deemed to be excessive and would result in an unwarranted impact on domestic garment manufacturers. Moreover, the CTI proposal would raise protection the most for fabrics least produced, and the least for the medium- and low-priced wool fabrics of less than 9 ounces per square yard produced the most. Therefore, the Board concluded that a flat rate of 17.5 p.c. would serve neither producers nor users of wool fabric.

Consideration was then given to the retention of a provision for a maximum amount of duty payable. An increase in the maximum would raise the level of protection with respect to most, if not all, imports under this item, but would reduce the percentage impact on the higher-priced wool fabrics and enhance the protective impact on the lower-priced fabrics. In this context, the Board considered an adjustment in the maximum which would have the effect of fully restoring the 1962 ad valorem equivalent of the $1.10 maximum introduced in that year.

Assuming that the textile industry selling price index is an accurate indicator of the increase in wool fabric prices, then wool fabric prices have nearly tripled between 1962 and 1983. The index rose from 98.1 (1961 = 100) in the former year to 291.9 in the latter. Woollen fabric prices in 1983, on this basis, would have been $3.33 per square yard compared to $1.14 in 1962. The corresponding figures for worsted fabrics per square yard were $5.69 and $1.95. Applying the index to the 1962 maximum of $1.10 yields an equivalent of $3.21 per pound.

The following table illustrates the impact of restoring the maximum. It is clear that a maximum of $3.21 would triple the protection provided by the 1962 maximum, with the exception of those fabrics at the lower end of the price spectrum where the 25 p.c. ad valorem ceiling applies. Full restoration of lost protection by increasing the maximum to $3.21 would result in an average rate of duty for all imports under this item of about 22.5 per cent. In the Board's opinion an adjustment of this magnitude would adversely affect the garment industry and is unacceptable.

TABLE 5

EFFECT OF RESTORING THE MAXIMUM

Import Price Per Sq. Yard Weighing 8 oz.	Ad Valorem Equivalent of 1962 Maximum (per lb)	Ad Valorem Equivalent of $3.21 Maximum	Change in Protection	Impact on Garment Mfrs.
$2.20	25.0 p.c.	25.0 p.c.	nil p.p.	nil%
$3.30	16.7 p.c.	25.0 p.c.	+ 8.3 p.p.	+2.4%
$4.40	12.5 p.c.	25.0 p.c.	+12.5 p.p.	+3.7%
$6.60	8.3 p.c.	24.3 p.c.	+16.0 p.p.	+4.9%
$8.80	6.3 p.c.	18.2 p.c.	+11.9 p.p.	+3.7%
$9.90	5.6 p.c.	16.2 p.c.	+10.6 p.p.	+3.3%
$13.20	4.2 p.c.	12.2 p.c.	+ 8.0 p.p.	+2.6%

The actual incidence of a $3.21 maximum, or for that matter of any other maximum, in terms of the average rate of duty on total imports under 53215-1, requires information on the volume of imports by price range. Accurate data of this kind, though requested from garment manufacturers was not supplied by them, nor was it available from other sources.(7) In the absence of adequate information on the price composition of imports, it was decided to convert the increase in duties occasioned by the application of the 17.5 p.c. proposed by the CTI into a corresponding increase in the maximum. This method assumes that imports are divided equally by price range, and that the higher maximum would be the effective level of duty payable for all imports. The latter is not entirely valid, because the 25 p.c. (1987) ad valorem rate of duty for tariff item 53215-1, which would be retained with the adjusted maximum, would be operative for the lowest-priced imports.

The CTI proposal of a flat duty of 17.5 p.c. when applied to 1983 imports would generate $8.89 million in duties. The actual duty collected in 1983 based on a duty of 25 p.c. ad valorem rate plus the specific element and with the maximum of $1.10 per pound, was $6.1 million.(8) Consequently, in order to achieve the overall level of protection sought by the CTI would mean an additional $2.79 million in duties, requiring an increase in the maximum

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(7) See Staff Appreciation of the Evidence and Issues, p. 29.
(8) Statistics Canada, 1983 Imports.

duty of 45.7% or 50.3 cents to $1.60 per pound. Such an adjusted maximum of $1.60 may be marginally smaller than required because, as noted above, the 25 p.c. ad valorem duty would apply to low-priced imports rather than the adjusted maximum. However, the absence of specific price/quantity data precluded any further fine tuning of the adjustment. Under this adjustment the 25 p.c. ad valorem rate would apply to fabrics weighing less than 8 ounces per square yard priced up to $3.20 per square yard or $5.34 per linear yard. The following Table shows the impact of this adjustment compared to the CTI proposal as presented in Table 2.

TABLE 6

EFFECT OF $1.60 MAXIMUM

Import Price Per Sq. Yard Weighing 8 oz.	Ad Valorem Equivalent of $1.60 Maximum	Change in Protection With $1.60 Maximum	Change in Protection CTI Proposal
$2.20	25.0 p.c.	nil p.p.	- 7.5 p.p.
$3.30	24.2 p.c.	+7.5 p.p.	+ 0.8 p.p.
$4.40	18.2 p.c.	+5.7 p.p.	+ 5.0 p.p.
$6.60	12.1 p.c.	+3.8 p.p.	+ 9.2 p.p.
$8.80	9.1 p.c.	+2.8 p.p.	+11.2 p.p.
$9.90	8.1 p.c.	+2.5 p.p.	+11.9 p.p.
$13.20	6.1 p.c.	+1.9 p.p.	+13.3 p.p.

In the Board's opinion, increasing the specific maximum to $1.60 would meet the CTI's major concern in respect of item 53215-1 and would, at least in part, restore the intended level of protection established in 1962.

Resolving the current problems with tariff item 53215-1 by adjusting the specific maximum must, in addition, address the problem that any new specific value may be subject to erosion in the future. A solution to this problem could be achieved by binding the rate at 25 p.c. including a specific maximum with the condition that the annual average rate of duty collected under this item should be 17.5 percent. When the average duties collected drop below 17.5 percent the specific maximum duty would be adjusted upwards. This would involve a periodic adjustment of the specific maximum in order to prevent further erosion of protection. The staff appreciation paper of March 1984 suggested that any adjustment to the specific maximum should be announced by January 1 of each year.(9) At the May hearing the CTI supported the staff's proposed adjustable maximum but suggested that the annual adjustment should be announced earlier than January 1st.

The Board concluded, therefore, that the rate of duty for tariff item 53215-1 should continue to be 25 p.c. plus the declining specific element negotiated in the MTN, with a maximum amount of duty payable of $1.60 per

(9) op. cit., p. 30.

pound. It is, furthermore, proposed that the specific maximum per pound should be changed annually, with such changes to be announced annually on or before October 1st, on the basis that the adjusted maximum applied to the most recent 12-months trade data would have yielded an average annual rate of duty for imports under tariff item 53215-1 of 17.5 p.c.

2. The Temporary Items — Woven fabrics, composed of yarns spun on the woollen system, containing not less than 50 p.c. by weight of virgin wool or hair and not containing more than one generic type of man-made fibre, or containing not less than 40 p.c. by weight of virgin wool or hair and not containing any man-made fibres, for use in the manufacture of men's and boys' suits, vests, sport coats and blazers, dress slacks and fine tailored topcoats other than car coats and duffle coats:

Tariff item 53245-1 — Weighing not more than 9 ounces to the square yard in accordance with standard test methods described in ASTM D1776-74, and valued at not less than $5 per square yard

Tariff item 53246-1 — Weighing more than 9 ounces to the square yard but less than 12 ounces to the square yard in accordance with standard test methods described in ASTM D1776-74, and valued at not less than $6.60 per square yard

Tariff item 53247-1 — Weighing not less than 12 ounces to the square yard in accordance with standard test methods described in ASTM D1776-74, and valued at not less than $7.90 per square yard

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Tariff item 53250-1 — Tweed fabrics, composed wholly of yarns of virgin wool or hair spun on the woollen system, not exceeding 35 inches in loom width, valued at not less than $8 per square yard, for use in the manufacture of men's and boys' suits, vests, sport coats and blazers, dress slacks and fine tailored topcoats other than car coats and duffle coats

Tariff item 53255-1 — Woven fabrics composed of yarns containing not less than 95 p.c. by weight of virgin wool or hair, spun on the woollen system, valued at not less than $14 per square yard, for use in the manufacture of men's fine tailored topcoats other than car coats and duffle coats

The CTI proposed on behalf of the fabric producers that tariff item 53245-1, 5.5 p.c., tariff item 53246-1, 6.5 p.c., and tariff item 53247-1, 7.5 p.c., be eliminated, and that the goods entering under them should revert to their parent items 53215-1, 53205-1 and 53210-1 at MFN rates of duty of 17.5 p.c., 25 p.c. and 25 p.c. respectively. The garment manufacturers argued that these three temporary items should be made permanent at MFN rates of Free.

The temporary items were introduced in 1980 at a time when Canadian and foreign costs, and exchange rates were deemed to be competitive with minimal protection. By 1983 that situation had deteriorated drastically to a point where there was virtually no domestic production of woollen fabrics for the men's garment trade and the industry was operating at levels well below full capacity. Indeed, the price of the imported woollen fabrics in certain constructions was so low that such imports were being substituted for domestic worsted fabrics of a similar style.

The garment manufacturers contended that the fabrics which they imported under these items were not produced, and could not be produced in Canada. In particular, they defined these as fabrics which contained alpaca wool, camel hair, cashmere wool, cheviot wool, lambs wool, mohair and saxony wool. In later evidence they added to these categories certain specialty wool blend fabrics containing linen and silk.

The Board accepted the evidence that certain specialty fabrics had not been, were not, and were not likely to be produced in Canada, and concluded that a new tariff item covering the specialty or blended fabrics identified by the garment industry for preferential access should be created. The description of the goods would be as follows:

> Woven fabrics, composed of yarns spun on the woollen system, containing not less than 15 per cent[10] by weight of alpaca wool, camel hair, cashmere wool, cheviot wool, lambs wool, saxony wool, linen or silk.

The Board also concluded that these specialty fabrics should be accorded free entry because their high price would prevent any significant substitution of these fabrics for domestic fabrics.

With respect to the other woollen fabrics for the men's market covered by these three temporary items the Board is satisfied, based on the public evidence and the confidential responses to the questionnaire that there has been a significant reduction in Canada of production of these woollens since 1980. The Board concluded, therefore, that items 53245-1, 53246-1 and 53247-1 should be terminated with the result that the subject goods, other than those provided for in the new specialty fabric item, will return to their parent items 53215-1, 53205-1 and 53210-1.

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(10) supra, p. 14 and p. 21. Submissions by Britalia and Carsilco.

3. Tariff items 53205-1 and 53210-1

The woollens reverting to item 53215-1 would be dutiable, if the Board's recommendation for that item were implemented, at the rate of 25 p.c. with a maximum of $1.60, with the provision of a minimum average annual rate of duty of 17.5 p.c. As indicated in the analysis of the CTI proposal, the duty for woollens presently covered by 53245-1 would increase by 12 percentage points. This would be in addition to the increase of at least 5 percentage points for the goods at present classified to 53215-1. Furthermore, the fabrics of 53246-1 and 53247-1 would experience additional duties of 18.5 and 17.5 percentage points respectively when measured against the 25 p.c. MFN rate of duty for items 53205-1 and 53205-1 as of January 1, 1987, and, currently, with the specific duty, even more. The Board's view was that the combined impact of these changes was excessive, and would cause unacceptable and unwarranted pressure on the market position of the Canadian garment industry.

Consideration was given to several alternatives to achieve somewhat greater balance in the recommendations governing 53215-1 and the three temporary tariff items, and thus tariff items 53205-1 and 53210-1. One of these options was to provide the light weight woollens of 53215-1 with a lower rate of duty or even free entry. Aside from administrative identification problems as between worsteds and woollens, this would benefit users of the light-weight woollens, mostly for the ladies' garment market, while the cost of higher duties would be incurred by the users of worsted weighing less than 9 ounces, mainly manufacturers of men's garments. Since the two would not be the same, this solution would be inequitable. A second alternative, lowering of the rate of duty on worsted fabrics weighing 9 ounces or more, was also discarded for administrative difficulties, even though it would have been justifiable on the basis of equity.

The Board, then, considered a small reduction, from 25 p.c. to 22.5 p.c., in the 1987 MFN rates for items 53205-1 and 53210-1. It would not only moderate the higher protection emanating from the elimination of items 53246-1 and 53247-1 but would also offset any remaining increase in protection for the goods covered by these two temporary items by lower protection on all the goods presently covered by the parent items. This reduction would be in line with a normal rate structure in which the rate of duty on garments, 25 p.c., would exceed the rate, 22.5 p.c., on its intermediate input, fabrics, while at present the reverse applies. Furthermore, it was estimated that the lower duties on 53205-1 and 53210-1 would, by 1987, reduce duties collected by $944.8 thousand which would offset the estimated increase in duties collected resulting from the elimination of the temporary items 53245-1, 53246-1 and 53247-1, and would leave $413.4 thousand towards balancing the higher protection for 53215-1. The Board concluded, therefore, that it would be desirable to reduce the ad valorem rates of duty for items 53205-1 and 53210-1 from 25 p.c. to 22.5 p.c. Recognizing, however, that this change might have some effect on the fabric manufacturers, the Board was of the opinion that the specific rates under items 53205-1 and 53210-1 should continue to apply until 1987 on the reducing scale as indicated by line 71 of Table 1 of the Customs Tariff.

4. Tariff items 53250-1 and 53255-1

Both the fabric producers and the garment manufacturers supported continuation of the temporary tariff items 53250-1 and 53255-1. In respect of item 53250-1 the fabric producers expressed some concern that the goods (Harris Tweed) could be produced on power looms and recommended that the term "handwoven" be incorporated. All parties agreed that visual inspection could differentiate between handwoven and machine-woven fabrics. The Board concluded that the term "handwoven" should be added to the description of the goods under item 53250-1.

The garment manufacturers objected to the minimum prices in both 53250-1 and 53255-1. They noted that, because of recent changes in exchange rates, the price of Harris Tweed fabric had fallen below $8 per square yard with the result that the goods had become dutiable under either 53245-1 at 5.5 p.c. or 53246-1 at 6.5 p.c. The CTI, on behalf of the fabric manufacturers, subsequently advised the Board that it would not object to a reduction in the $8 per square yard minimum price for Harris Tweed so that the fabrics could again enter duty free. In the Board's opinion, this concession by the CTI called into serious question the need for such minimum prices. In logic, domestic cost increases since 1980, regardless of exchange rate fluctuations, would suggest that any specific minimum price established in 1980 should have been increased. Over time inflation will erode the effectiveness of a specific minimum price in a tariff description in exactly the same way that the protective effect of the $1.10 per pound maximum duty under 53215-1 has been eroded. To suggest that a minimum price can be reduced whenever it is effective in providing higher protection is to argue that it is unnecessary. The Board concluded, therefore, that the minimum prices in temporary tariff items 53250-1 and 53255-1 should be deleted.

The ladies' garment manufacturers argued that restricting preferential access to the temporary woollen items to the men's garment sector was discriminatory. At the same time they argued that, in the ladies' garment market, fashion, style, colour, handle, etc., were of paramount importance and that fabric price was only considered after these criteria had been met. In this regard they noted that Harris Tweed occasionally came into fashion for a season but that it was not a major fabric for the ladies trade as compared to the relatively stable and large market for mens tweed jackets. The Board noted that elimination of temporary tariff items 53245-1, 53246-1 and 53247-1 would remove any discrimination as between men's and ladies garments for the fabrics of major interest to the ladies garment manufacturers, particularly the light-weight woollens. From a cost point of view the ladies garment industry would be totally unaffected by any change in the temporary items. With respect to item 53250-1, the lack of any substantiating evidence other than a possible future change of fashion was not, in the Board's opinion, sufficient to warrant further changes to tariff item 53250-1.

5. Tariff item 53220-1 Woven fabrics, composed wholly or in chief part by weight of yarns of wool or hair, not exceeding in weight four ounces to the square yard, when imported in the gray or unfinished condition, for the purpose of being dyed or finished in Canada

This has been an insignificant tariff item in recent years with 1983 imports of $7,900 only. There are firms in Canada with dying and finishing facilities who presently import fabrics in the gray and unfinished condition, most of which enter under 53215-1 because they weigh more than 4 ounces to the square yard. The evidence presented stated that such fabrics are not available in Canada at competitive prices. At the final hearing the CTI suggested that this item could be eliminated because of the small volume of imports. If item 53220-1 were eliminated the goods in question would enter under item 53215-1 where, depending on the value of the fabrics the rate of duty might fall from 18.3 p.c. to 17.5 p.c. In the Board's opinion, improved access for unfinished fabrics would increase the variety of domestic fabrics available to the garment industry. To achieve this end the Board concluded (1) that tariff item 53220-1 should be amended by deleting the words "not exceeding four ounces to the square yard" thus covering all fabrics in the gray, and (2) that the rate of duty should be reduced to 12.5 p.c. in order to provide dyers and finishers an operating margin with respect to finished fabrics entering under item 53215-1.

6. Tariff item 53230-1 Woven billiard cloth composed wholly or in part of wool or hair; melton cloth for use in the manufacture of tennis balls

Although billiard cloth is produced in Canada and imported, little interest was shown by any of the participants in this item. It was suggested that, since tennis balls are not produced in Canada that the reference to melton cloth might be deleted. In the Board's opinion, such a change at this time would be of no benefit. The Board concluded, therefore, that no change should be made to either the nomenclature or the rates for item 53230-1.

7. Tariff item 53010-1 Slivers, wholly or in parts of wool, not containing man-made fibres or glass fibres

This item was not mentioned in the Minister's letter of reference but it was discussed at the public hearings and all participants agreed that there would be a benefit from immediate free entry for wool sliver. Since the Minister had stated that the Board could include any other tariff items in its review, the Board agreed to expand the scope of the reference to include item 53010-1.

During the MTN tariff negotiations it was agreed to reduce the MFN rate for wool sliver from 5 cents per pound in 1979 to Free in 1987. Under the formula for staged rate reductions the rates for wool sliver are 3.3 cents in 1983, 2.5 cents in 1984, 1.7 cents in 1985 and 0.8 cents in 1986. In 1983 the duty collected under this item was $155,600.[11]

The evidence from the integrated fabric producers stated that all wool sliver for woollen and worsted yarn production had to be imported, mainly from South Africa and Australia. Canadian sheep production has been rising in recent years but the main focus is the red meat market and not the high quality wool market. While the amount of duty paid is insignificant and declining, the immediate implementation of the Free rate would be a benefit to the fabric producers by enabling them to contain, if not reduce, costs over the next two and a half years. The Board concluded, therefore, that it would be desirable to implement the Free rate for tariff item 53010-1 at the earliest possible date.

8. Tariff item 53105-1	Rovings and yarns, fifty per cent or more, by weight, or hair
Tariff item 53110-1	Rovings and yarns, wholly or in part of wool, or in part of hair, n.o.p.
Tariff item 53120-1	Yarns and warps, spun on the worsted system, composed wholly of wool or in part of wool or hair, imported by manufacturers for use in their own factories in the manufacture of woven fabrics in chief part by weight of wool or hair and not exceeding six ounces to the square yard, when in the gray or unfinished condition, under such regulations as may be prescribed by the Minister

The wool yarn tariff items were explicitly included in the reference by the Minister. The rates for all three of the yarn items were altered by the MTN tariff negotiations and these changes are being introduced gradually over the period to January 1, 1987. The rate for item 53105-1 will be reduced from 7.5 p.c. in 1979 to 5.5 p.c. in 1987, with the interim rates being 6.8 p.c. in 1983, 6.5 p.c. in 1984, 6.2 p.c. in 1985 and 5.8 p.c. in 1986. In 1979 the rates for items 53110-1 and 53120-1 were 10 p.c. plus 10 cents per pound. During the MTN it was agreed that the 10 cents per pound specific element would be converted to an ad valorem rate so that the MFN rate in 1987 will be 12.5 p.c. The transitional rates are 10.8 p.c. plus 6.7 cents in 1983, 11.2 p.c. plus 5 cents in 1984, 11.7 p.c. plus 3.3 cents in 1985 and 12.1 p.c. plus 1.7 cents in 1986.

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(11) Statistics Canada. 1983 Imports.

The possibility of improving the viability of fabric producers from the input side by reducing the MFN rates of duty for tariff items 53105-1, 53110-1 and 53120-1 to Free was discussed at the January public hearing. Duty-free access for yarns to weavers, it was argued, would reduce their yarn costs, improve the viability of fabric production and reduce the need to raise the level of protection for wool fabrics.

There are no independent spinners in Canada of woollen or worsted yarns used by woollen and worsted fabric weavers. The major fabric producers spin much of their yarn requirements themselves. Woollen fabric weavers spin most of their yarn from imported raw wool although some is also spun from reprocessed wool. Worsted fabric producers also spin a large proportion of their yarn requirements from imported sliver although a substantial volume of yarn is imported as well. In addition, there are several fabric producers who are entirely dependent on imported yarns. The integrated fabric producers objected to free entry for yarns on the grounds that this would result in the termination of their spinning operations, the write-off of the unamortized cost of spinning equipment and the lay-off of related workers. The Board was told that the integrated fabric producers would immediately commence purchasing their yarn requirements abroad.

There was evidence, however, that there would not be a complete or major shift to off-shore yarn supplies if the MFN rate of duty on rovings and yarns were reduced to Free. Integrated fabric producers stated that spinning their own yarn was a crucial determinent of their ability to respond to the demand for variety and quality of fabric by garment manufacturers and in order to be able to fill additional orders at the end of the season. The integrated fabric producers stated that in the past they had attempted to meet certain of their yarn requirements through offshore purchases. The evidence presented was unanimous that their experience with importing yarns was unsatisfactory because of problems with quality and deliveries. In line with this argument fabric producers could be expected to continue to spin the bulk of their yarn requirements at current costs with protection being provided by the duty on fabrics rather than the duty on yarns. The Board concluded, therefore, that duty free entry for yarn would provide fabric producers with some degree of flexibility to produce higher quality fabrics and to offer garment manufacturers a wider variety of fabrics.

In arriving at these conclusions the Board considered a number of alternative tariff solutions which were subsequently eliminated either because of lack of support by interested parties or because, in the Board's judgment, they did not provide viable solutions. For example, in looking for an alternative to the specific maximum duty provision of item 53215-1 consideration was given to introducing a price point. Imports valued above the price point would be dutiable at a lower rate than those below. The purpose was to provide preferential access to high-priced fabrics of a quality not made in Canada. This solution was eliminated for three reasons. First, because of the duty differential, fabrics priced slightly above the price point would have a landed, duty-paid price below that of fabrics priced slightly below the price point and would provide a competitive advantage to such higher priced

fabrics. Second, a price point in a tariff description would be equally subject to inflationary erosion as the specific duty it was designed to replace so that the fundamental problem would remain. Third, the introduction of a price point was not supported by the participants at the inquiry.

Finally, consideration was given to a tariff rate quota whereby the rate of duty would rise as the volume of imports increased. Analysis of this option showed that it would require a complex administrative structure, interfere with existing import quota provisions and be very disruptive to the garment sector. Again, it was an alternative which received absolutely no support from either the fabric producers or the garment manufacturers.

Cost/Benefit Analysis of the Conclusions

Table 7 below sets out the cost/benefit analysis of implementing the Board's proposals. The proposal regarding wool sliver, that the MTN rate of Free be implemented as soon as possible, would provide only a temporary benefit to the fabric producers. In addition, the benefit would be less than shown in the Table since the calculation in the Table was based on 1983 imports and a rate of duty of 3.3 cents per pound which has been reduced to 2.5 cents per pound in 1984. Nevertheless, the Board was of the opinion that early implementation of the Free rate would be of benefit to the fabric producers during a period of adjustment to altered rates for yarn and fabric tariff items.

The cost/benefit analysis of duty free access for yarns confirms the earlier view that such a change would benefit the fabric producers. Duty free entry for yarns could not have been considered if spinning of yarns used in woollen and worsted fabric production were an independent commercial function in Canada. Duty free entry for yarns will be a benefit to those fabric producers who must import all of their yarns and will provide some benefit to integrated producers who import some proportion of their yarns. Furthermore, on yarn spun in Canada by integrated firms themselves, the net effect of duty free entry is zero. Only the government faces a net cost.

The cost/benefit analysis of the fabric sector shows that, on balance, there would be a benefit to fabric producers on their domestic output resulting from additional protection worth approximately $1.2 million and an equal cost to garment manufacturers. The net cost of various tariff item and rate changes could cost garment manufacturers an additional $760 thousand. In the Board's opinion this additional cost is small when spread over the entire output of all garment producers - both men's and ladies. The benefit to the government is insignificant.

TABLE 7

DOMESTIC NET COST-BENEFIT OF BOARD'S CONCLUSIONS

	($ million)	
Wool Sliver Sector	Benefit	Cost
Benefit of Wool Sliver Protection to Wool Sliver Producers:	Nil	Nil
Benefit of Wool Sliver Protection to Spinners:	0.16	
Cost to Gov't Duties Collected for Wool Sliver:		0.16
Yarn Sector		
Cost of Yarn Protection to Yarn Producers:		5.72
Benefit of Yarn Protection to Fabric Weavers:	5.72	
Cost of Gov't of Duties Collected for Yarns:		0.81
Benefit of Yarn Protection to Fabric Weavers:	0.81	
Fabric Sector		
Benefit of Fabric Protection to Fabric Weavers:	1.22	
Cost of Fabric Protection to Garment Mfrs.:		1.22
Benefit to Gov't of Duties Collected for Fabrics:	0.76	
Cost of Fabric Protection to Garment Mfrs.:		0.76

Table 8 presents a detailed cost/benefit analysis of the Board's proposals based on implementation in 1983. The numbers by sector vary slightly as between Tables 7 and 8. It will be noted that the slight difference for the wool and yarn sectors are due to rounding in Table 7. The cost to the garment sector in Table 7 is shown as $760 thousand while the weighted average impact for the fabric sector in Table 8 is shown as $700.5 thousand. The impact in Table 8 is calculated on the basis of total imports of woollen and worsted fabric imports for both apparel and non-apparel uses. Table 7 covers only fabrics for apparel. It should also be noted that the effect of reducing the rates of duty for items 53205-1 and 53210-1 is considerably overstated for two reasons. First, the 1983 rate includes the ad valorem equivalent of the specific rates and, second, the proposed rate is shown as 22.5 p.c. without the ad valorem equivalent of the specific rates. A more realistic post-1986 calculation of the impact of these rate reductions is given on page 51 where the rate reductions for items 53205-1 and 53210-1 are discussed in greater detail.

TABLE 8

IMPACT OF THE BOARD'S CONCLUSIONS
CHANGES IN RATES OF DUTY AND COST IMPACT, 1983[1]

Tariff Item	Rates of Duty: 1983 Rate of Duty p.c.	Rates of Duty: Board's Proposal p.c.	1983 Imports -$'000-	Impact on Rates of Duty -percentage points-	Impact on Duty Collected -$'000-
Wool					
53010-1	1.0	Free	14,866.8	- 1.0	- 155.6
Impact on Yarn Cost				(- 0.25)	
Yarns					
53105-1	6.8	Free	758.7	- 6.8	- 51.6
53110-1	12.1[a]	Free	4,926.6	- 12.1	- 598.5
53120-1	12.1[a]	Free	1,292.9	- 12.1	- 156.2
Weighted Average	11.6			- 11.6	- 806.3
Impact on Fabric Cost				(- 5.7)	
Fabrics					
53205-1	28.5[a]	22.5	26,085.5	- 6.0	-1,562.5
53210-1	28.0[a]	22.5	10,259.4	- 5.5	- 568.2
53215-1	12.5[a]	17.5	50,850.9	+ 5.0	+2,527.4
53220-1	18.3	12.5	7.9	- 5.8	- 0.5
53230-1	20.0	20.0	752.1	N.C.	N.C.
53245-1	5.5	17.5	2,242.7	+ 12.0	+ 269.1
53246-1	6.5	22.5	991.7	+ 16.0	+ 158.7
53247-1	7.5	22.5	459.5	+ 15.0	+ 68.9
53250-1	Free	Free(RMV)	222.3	N.C.	N.C.
53255-1	Free	Free(RMV)	281.8	N.C.	N.C.
53240-1	6.0[b]	Free	3,200.0[c]	- 6.0	- 192.6
Weighted Average	18.1	18.8		+ 0.7	+ 700.5
Impact on Garment Mfg. Cost				(+ 0.2)	

(1) The impact of reductions to Free for sliver under 53010-1 on yarn spinning costs is derived on a scale factor of .25, based on the fact that sliver costs comprise 25% of the total cost of producing yarn. The impact of free entry for yarns on fabric production costs is derived on a scale factor of .55, based on the fact that yarn costs comprise 55% of the total cost of producing fabrics. The impact on the garment manufacturing industry is derived on a scale factor of .333, based on the fact that fabric costs comprise 33.3%, on average, of the total cost of producing garments.

Cont'd.

(a) Ad valorem equivalent of applied rates.
(b) 53240-1, specialty fabric, calculated rate of duty based on weighted average of selected products removed from tariff items 53245-1, 53246-1 and 53247-1.
(c) Estimated.
N.C.: No change
(RMV): Removing minimum values in the tariff item to be eligible for duty free entry

In the Board's opinion, this package of tariff item and rate adjustments would, when implemented, provide a balanced solution to the further erosion of adequate tariff protection for item 53215-1, and resolve the uncertainty surrounding the temporary tariff items 53245-1, 53246-1, 53247-1, 53250-1 and 53255-1.

CHAPTER V

RECOMMENDATIONS

On May 17, 1984, the Governor in Council, acting on the recommendation of the Minister of Finance, pursuant to subsection 22(1) of the Customs Tariff, amended the descriptions of the textile tariff items to substitute metric measurements for imperial measurements. This amendment did not alter the actual duties payable. In light of this development the Board decided that its recommendations should be presented in accordance with the new metric tariff items despite the fact that all of the evidence and analysis had been based on imperial measurements used in 1983. This conversion did not affect any of the analysis or the Board's recommendations.

The following are the Board's recommendations with respect to the nomenclature and MFN rates of duty regarding the relevant woollen and worsted tariff items.

1. In respect of tariff item 53010-1 the Board recommends that the MFN rate of duty be reduced to Free at the earliest possible moment.

53010-1	Sliver, wholly or in parts of wool, not containing man-made fibres or glass fibres ....per kilogram	Free

2. In respect of the rovings and yarns covered by tariff items 53105-1, 53110-1 and 53120-1 the Board recommends that the MFN rates of duty be reduced to Free.

53105-1	Rovings and yarns, fifty per cent or more, by weight, of hair	Free
53110-1	Rovings and yarns, wholly or in part of wool, or in part of hair, n.o.p.	Free
53120-1	Yarns and warps, spun on the worsted system, composed wholly of wool or in part of wool or hair, imported by manufacturers for use in their own factories in the manufacture of woven fabrics in chief part by weight of wool or hair and not exceeding 203g/m^2 when in the gray or unfinished condition, under such regulations as may be prescribed by the Minister	Free

3. In respect of the woven fabrics covered by tariff items 53205-1 and 53210-1 the Board recommends that the MFN ad valorem rates of duty be reduced to 22.5 p.c. and that the specific rates of duty be retained in accordance with the provisions of line 71, Table 1 of the Customs Tariff.

53205-1	Woven fabrics composed wholly or in part of yarns of wool or hair, n.o.p.	22.5 p.c.
	and, per kilogram	27.6 cts.
53210-1	Woven fabrics composed wholly or in part of yarns of wool or hair and weighing not less than $406g/m^2$	22.5 p.c.
	and, per kilogram	27.6 cts.

4. In respect of the woven fabrics covered by tariff item 53215-1 the Board recommends that the MFN ad valorem rate of 25 p.c. be retained and that the specific rates of duty be retained in accordance with the provisions of line 71, Table 1 of the Customs Tariff. In order to restore some of the intended protection eroded in recent years by inflation, the Board recommends that the specific maximum per kilogram be increased to $3.53. The Board also recommends that the item be amended by adding "The Minister shall, on or before October 1st of each year, amend the specific maximum duty per kilogram, on the basis of the most recent available twelve months import statistics, such that the average rate of duty would have been 17.5 p.c."

53215-1	Woven fabrics composed wholly or in chief part by weight of yarns of wool or hair and weighing not more than $305g/m^2$, n.o.p.	25 p.c.
	and, per kilogram	27.6 cts.
	The total duty leviable shall not be in excess of .... per kilogram	$3.53
	The Minister shall, on or before October 1st of each year, amend the specific maximum duty per kilogram, such that, on the basis of the most recent available twelve months import statistics, the average rate of duty would have been 17.5 p.c.	

5. In respect of gray or unfinished fabrics entering under tariff item 53220-1 the Board recommends that the words "not exceeding in weight 135g/m^2" be deleted and that the MFN rate of duty be reduced to 12.5 p.c.

53220-1	Woven fabrics, composed wholly or in chief part by weight of yarns of wool or hair when imported in the gray or unfinished condition, for the purpose of being dyed or finished in Canada	12.5 p.c.

6. The Board does not recommend any change in tariff item 52230-1.

53230-1	Woven billiard cloth composed wholly or in part of wool or hair; melton cloth for use in the manufacture of tennis balls	20 p.c.

7. The Board recommends that temporary tariff items 53245-1, 53246-1 and 53247-1 be discontinued.

8. The Board recommends that a new statutory tariff item be created to cover certain specialty woollen fabrics containing alpaca wool, camel hair, cashmere wool, cheviot wool, lambs wool, saxany wool, linen or silk with a MFN rate of duty of Free.

53240-1	Woven fabrics, composed of yarns spun on the woollen system, containing not less than 10 per cent by weight of alpaca wool, camel hair, cashmere wool, cheviot wool, lambs wool, saxony wool, linen or silk	Free

9. The Board recommends that temporary tariff item 53250-1 covering tweed fabrics be amended to insert the term "handwoven" and to delete "valued at not less than $8 per square yard", and that the item be made statutory with a MFN rate of duty of Free.

53250-1	Tweed fabrics, composed wholly of yarns of virgin wool or hair spun on the woollen system, handwoven and not exceeding 89cm in loom width, for use in the manufacture of men's and boys' suits, vests, sport coats and blazers, dress slacks and fine tailored topcoats other than car coats and duffle coats	Free

10. The Board recommends that temporary tariff item 53255-1 be amended by deleting the words "valued at not less than $14 per square yard" and that the item be made statutory with a MFN rate of duty of Free.

53255-1	Woven fabrics composed of yarns containing not less than 95 p.c. by weight of virgin wool or hair, spun on the woollen system, for use in the manufacture of men's fine tailored topcoats other than car coats and duffle coats	Free

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Member

C.N. Beauchamp
Member

Ottawa
July 24, 1984

APPENDIX 1

1983 Imports of Woollen and Worsted Yarns and Fabrics

Note: The figures presented in this appendix will not correspond exactly to any subsequent data published by Statistics Canada. The Board's staff have reviewed every 1983 import entry and made corrections at a level of detail which is not possible by Statistics Canada.

	1983				
				Imports	
	B.P.	M.F.N.	G.P.T.	Quantity lb.	Value $
Tariff Item 53105-1					
Rovings and yarns, fifty per cent or more, by weight, or hair	Free	6.8 p.c.	Free		
Total				55,356	870,036
Non-apparel				19,850	173,612
Apparel				35,506	696,424
Woollen				30,051	592,008
Worsted				5,454	99,416
Tariff Item 53110-1					
Rovings and yarns, wholly or in part of wool, or in part of hair, n.o.p.	8.3 p.c.	10.8 p.c.	7 p.c.		
and, per pound	4.7 cts.	6.7 cts.	4.4 cts.		
Total				1,321,113	6,544,742
Non-apparel				348,810	1,768,909
Apparel				927,303	4,785,833
Woollen				476,413	1,943,353
Worsted				495,890	2,842,480

	1983				
				Imports	
	B.P.	M.F.N.	G.P.T.	Quantity lb.	Value $
Tariff Item 53120-1					
Yarns and warps, spun on the worsted system, composed wholly of wool or in part of wool or hair, imported by manufacturers for use in their own factories in the manufacture of woven fabrics in chief part by weight of wool or hair and not exceeding six ounces to the square yard, when in the gray or unfinished condition, under such regulations as may be prescribed by the Minister	Free	10.8 p.c.	Free		
and, per pound		6.7 cts.			
Total				247,489	1,320,665
Non-apparel				9,790	64,212
Apparel				237,699	1,256,453
Woollen				32,436	154,006
Worsted				205,263	1,102,447
Tariff Item 53205-1					
Woven fabrics composed wholly or in part of yarns of wool or hair, n.o.p.	18 p.c.	25 p.c.	16.5 p.c.		
and per pound	15 cts.	16.7 cts.	11.1 cts.		
The total duty leviable shall not be in excess of ....per pound	60 cts.	-	-		
Total				5,462,646	26,338,813
Non-apparel				80,944	1,274,801
Apparel				5,381,702	25,064,012
Woollen				4,648,030	19,880,039
Worsted				718,209	5,067,828

	1983				
				Imports	
	B.P.	M.F.N.	G.P.T.	Quantity lb.	Value $
Tariff Item 53210-1					
Woven fabrics composed wholly or in part of yarns of wool or hair and weighing not less than twelve ounces to the square yard	18 p.c.	25 p.c.	16.5 p.c.		
and, per pound	9 cts.	16.7 cts.	11.1 cts.		
The total duty leviable shall not be in excess of ....per pound	55 cts.	-	-		
Total				1,896,245	10,269,132
Non-apparel				43,942	570,174
Apparel				1,852,303	9,698,958
Woollen				1,486,648	8,015,248
Worsted				365,227	1,679,830
Tariff Item 53215-1					
Woven fabrics composed wholly or in chief part by weight of yarns of wool or hair and weighing not more than nine ounces to the square yard, n.o.p.	18 p.c.	25 p.c.			
and, per pound	12 cts.	16.7 cts.	-		
The total duty leviable shall not be in excess of ....per pound	60 cts.	$1.10	-		
Total				5,805,653	50,955,065
Non-apparel				19,003	140,049
Apparel				5,786,650	50,815,016
Woollen				2,975,423	22,769,290
Worsted				2,790,201	27,884,613

	1983				
				Imports	
	B.P.	M.F.N.	G.P.T.	Quantity lb.	Value $
Tariff Item 53220-1					
Woven fabrics, composed wholly or in chief part by weight of yarns of wool or hair, not exceeding in weight four ounces to the square yard, when imported in the gray or unfinished condition, or the purpose of being dyed or finished in Canada	Free	18.3 p.c.	Free		
Total				1,302	7,903
Non-apparel				148	595
Apparel				1,154	7,308
Woollen				577	3,638
Worsted				577	3,670
Tariff Item 53230-1					
Woven billiard cloth composed wholly or in part of wool or hair; melton cloth for use in the manufacture of tennis balls	Free	20 p.c.	Free		
Total				23,351	324,649
Non-apparel				23,351	324,649
Apparel				-	-
Woollen				-	-
Worsted				-	-

	1983				
				Imports	
	B.P.	M.F.N.	G.P.T.	Quantity lb.	Value $
Woven fabrics, composed of yarns spun on the woollen system, containing not less than 50 p.c. by weight of virgin wool or hair and not containing more than one generic type of man-made fibre, or containing not less than 40 p.c. by weight of virgin wool or hair and not containing any man-made fibres, for use in the manufacture of men's and boys' suits, vests, sport coats and blazers, dress slacks and fine tailored topcoats other than car coats and duffle coats:					
Tariff Item 53245-1					
Weighing not more than 9 ounces to the square yard in accordance with standard test methods described in ASTM D1776-74, and valued at not less than $5 per square yard .... (Temporary Tariff Item)	5.5 p.c.	5.5 p.c.	-		
Total				322,887	4,189,723
Non-apparel				-	-
Apparel				322,887	4,189,723
Woollen				322,887	4,189,723
Worsted				-	-

	1983				
				Imports	
	B.P.	M.F.N.	G.P.T.	Quantity lb.	Value $
Tariff Item 53246-1					
Weighing more than 9 ounces to the square yard but less than 12 ounces to the square yard in accordance with standard test methods described in ASTM D1776-74, and valued at not less than $6.60 per square yard ...... (Temporary Tariff Item)	6.5 p.c.	6.5 p.c.	-		
Total				145,950	1,849,348
Non-apparel				-	-
Apparel				145,950	1,849,348
Woollen				145,950	1,849,348
Worsted				-	-
Tariff Item 53247-1					
Weighing not less than 12 ounces to the square yard in accordance with standard test methods described in ASTM D1776-74, and valued at not less than $7.90 per square yard .... (Temporary Tariff Item)	7.5 p.c.	7.5 p.c.	-		
Total				86,864	859,480
Non-apparel				-	-
Apparel				86,864	859,480
Woollen				86,864	859,480
Worsted				-	-

	1983				
				Imports	
	B.P.	M.F.N.	G.P.T.	Quantity lb.	Value $
Tariff Item 53250-1					
Tweed fabrics, composed wholly of yarns of virgin wool or hair spun on the woollen system, not exceeding 35 inches in loom width, valued at not less than $8 per square yard, for use in the manufacture of men's and boys' suits, vests, sport coats and blazers, dress slacks and fine tailored topcoats other than car coats and duffle coats .... (Temporary Tariff Item)	Free	Free	Free		
Total				17,908	222,318
Non-apparel				-	-
Apparel				17,908	222,318
Woollen				17,908	222,318
Worsted				-	-
Tariff Item 53255-1					
Woven fabrics composed of yarns containing not less than 95 p.c. by weight of virgin wool or hair, spun on the woollen system, valued at not less than $14 per square yard, for use in the manufacture of men's fine tailored topcoats other than car coats and duffle coats .... (Temporary Tariff Item)	Free	Free	Free		
Total				17,719	281,826
Non-apparel				-	-
Apparel				17,719	281,826
Woollen				16,115	260,131
Worsted				1,604	21,695

Source: Revenue Canada, Customs Tariff and Statistics Canada, Computer Printout of Import Documentation.

APPENDIX 2

THEORETICAL ANALYSIS OF THE SUBSIDY ISSUE

In his letter of reference the Minister specifically asked the Board to examine the possibility of assisting the woollen and worsted fabric producers by means of a subsidy. The following is a review of current economic theory regarding subsidization, an analysis of the application of this theory to the Canadian woollen and worsted fabric industry and a summary of the opinions expressed by both fabric producers and garment manufacturers.

a) The Concept of a Subsidy

The economic theory of subsidization is one in which a government can induce changes in relative prices (either the market price, or the price to the consumer or producer) in the market, by offering rewards which will either reallocate resources to increase the value of output, redistribute incomes, or both. A subsidy results from any government action which causes a producer's total net private costs of production to be below the level of costs associated with producing the same level of output in the absence of that government action. This is the accepted definitions of a subsidy to producers. Therefore, a subsidy is a transfer payment with the following characteristics.(1)

(1) The market price in the absence of a subsidy is to be distinguished from: a) the price to the producer, which is the market price plus the per unit subsidy; and from b) the price to the consumer, which is market price less the per unit subsidy. A subsidy always changes at least one of these three types of prices.

(2) A subsidy imposes an initial financial burden on tax payers who finance the subsidy.

(3) Since the transmitting mechanism of a subsidy is a change in relative prices (i.e., the market price, or the price to the producer or consumer), a subsidy is always partial in the sense of never being applicable to all firms with respect to all output, or to all households with respect to the use of all their income, or to all factors of production with respect to all their activities.

(4) If the subsidized good, service, or factor accounts for a small part of the economy, the effect of the subsidy on the price can, in principle, be ascertained to a close approximation without considering the taxes or other means by which the subsidy is financed, provided

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(1) Shoup, Carl S., "The Economic Theory of Subsidy Payments", The Economics of Federal Subsidy Program, A Compendium of Papers Submitted to the Joint Economic Committee Congress of the United States, Part 1 - General Study Papers, pp. 55-73, May 1972.

that the financing measure does not bear disproportionately on the subsidized item. If, in addition, resultant changes in prices of complementary or rival goods or services or factors are all small, the effects of a subsidy can be ascertained by a one-market micro-analysis.

(5) If the conditions in (4) above hold, except that appreciable changes occur in the prices of complementary or rival goods or services or factors, the effect of the subsidy can be closely approximated by a two-market or multimarket microanalysis.

(6) If all the conditions stated in (4) above are lacking, and appreciable changes occur in the prices of all markets, then the result can be ascertained through a general equilibrium analysis. Such subsidies are referred to as "macrosubsidies". An example is a subsidy to all wage earners.

A subsidy is distinct from a welfare payment and the free supply of goods and services. A welfare payment is a transfer payment in which the amount is not conditioned by the desired action by the recipient household, firm or owner of a factor of production. The free supply of a good or service by the government, like the transfer payment, also differs from the subsidy in that it does not make use of the price mechanism.

b) Reasons for Subsidies

Subsidization has been recognized as an important tool for government intervention in national economies. The extent to which they are employed is a direct function of the different economic philosophies being incorporated into national policy.

The major argument for the implementation of subsidies can be discussed in either the macro-economic or the micro-economic policy context. The macro-economic argument for an industrial subsidy may be a justification for government spending where; (1) resources (e.g., labor and capital) would otherwise be unemployed due to a deficiency of aggregate demand or a structural imbalance; (2) the activity concerned is in difficulty for historical/ dynamic/ technological reasons which require some form of state intervention to restore the competitive position of the relevant enterprise; (3) the industry is in a start-up phase (i.e., the infant industry case); (4) the economy is experiencing balance of payment problems; or (5) inter-regional disparities exist.

It should be noted that the provision of industrial subsidies for most of the macro-economic objectives would be temporary in that they would no longer be needed once the objectives were attained.

The macro-economic/dynamic/technological arguments often concern industries involved in international trade. In this context, industrial subsidies are justifiable as the necessary "corrective" measure to "unfair"

foreign competition. The subsidization of the same industry may be justified by the "infant industry" argument. It asserts that industries which may benefit from large-scale operations because of the existence of external economies (e.g., a well-trained labor force, learning-by-doing effect, etc.), should be allowed to grow to optimum size under subsidy protection.

In other words, a country may be a potentially efficient producer and exporter of a given product but may be unable to realize its potential because of factors such as prohibitive start-up costs, difficulties of breaking into established markets, the lack of information, and so on. This argument is very often used by late arrivals on the market to justify their use of special tariff protection and subsidization. It should be noted that subsidies for domestic protection purposes are, as a whole, more likely to be effective than subsidies aimed at that part of production destined for export.

The balance of payment argument for subsidies refers to subsidization of a country's export or import substitution activities. The situation is analogous to a devaluation of the country's currency for current trade purposes. Export subsidies are defined as those which are contingent on the product being exported, and the size of which is determined by the amount being sold abroad.

Subsidies can also be used to reduce the extent of inter-regional disparities. The major regional development justification for subsidies is to induce employment in a depressed region. The argument would run as follows: as a result of rigidities, factor prices do not fall in depressed areas to the extent necessary to achieve full employment of resources. Moreover, as a matter of social policy, the people of a country would not wish to see wage rates in the depressed region fall to the extent necessary for achieving full employment of labour there. The downward inflexibility in wages is accompanied by labour immobility such that, unless special action is taken, labour will be unemployed. For example, in the case of a transportation subsidy, one way to encourage employment in such areas is by securing a reduction in transport rates either on products being sent out of the area to other parts of the country or, by attracting more traffic into such regions.

The micro-economic justification for subsidies arises from the need to eliminate distortions in the allocation of resources which are not self-correcting within the market system or the desire to correct market imperfections which prevent market institutions from producing the "desired" income distributive outcome. These are referred to as market failure cases. Distortions in the allocation of resources may be caused by increasing returns to scale (i.e., economies of scale) or by externalities.

Under increasing returns to scale, market forces will not bring the optimum resource allocation outcome. That is, average cost pricing would be necessary if total costs were to be covered; but, in order to maximize the excess of benefits over costs, the price should be equal to the marginal cost with the shortfall in total costs being covered by a government subsidy. However, if economies of scale are slight, there is very little welfare to be

gained through marginal cost pricing. The higher the magnitude of the economies of scale, the greater the gains in welfare to be made through marginal cost pricing.

The other economic arguments for subsidies rest mainly in the area of externalities. So-called "externalities" exist when there is a difference between the private and the social benefits (or costs) of a productive enterprise. The role of industrial subsidies in these situations is to adjust relative prices to the point where, for one reason or another, they do not properly reflect relative scarcities (consumer preferences).

Subsidies may also be used as an income redistribution mechanism, taxing the general public and subsidizing producers or consumers. However, if industries experience increasing returns to scale and/or are under political constraints that money transfer payments would not be politically acceptable, they could encourage consumption of "merit" goods by offering a subsidy-in-kind (e.g., transportation subsidy).

c) Types of Subsidies

There are a variety of ways in which subsidies may be differentiated from each other. Some authors may classify them according to the policy objective of the subsidy (e.g., capital subsidies, export subsidies, etc.) while others may group them based on the conditions attached to the subsidy (e.g., social or industrial, limited or open-ended, regional or non-regional, etc.). For the purpose of this paper, subsidies may be grouped in the following way:

i) direct or indirect (overt or covert);

ii) specific subsidies or cross-subsidies;

iii) intended subsidies or accidental subsidies;

iv) promotional, developmental, or continuing subsidies;

v) consumer subsidies or factor subsidies; and

vi) export or import-substitution subsidies.

A direct subsidy is visible to the public. It shows on the books of the recipient company as a payment which is received from some governmental agency. If a company is paid one dollar per unit of output then the operation is a directly subsidized service. An indirect subsidy is not as visible as a direct one. Rather, it is covert since there is no direct payment whatsoever to the company. For example, the funds are appropriated for the construction of infrastructure, a dock, a highway, etc., and a subsidy is conferred to users who do not pay its full cost. Because of the indirectness of the subsidy it is unlikely that the general public will know the amount of subsidy received by each user.

A specific subsidy normally refers to a subsidy destined for a specific group of producers or consumers. A cross-subsidy results when the users of certain goods and services do not pay the full cost of providing them, while the users of other goods and services, produced or provided by the same producer, pay more than their full cost.

An intended subsidy refers to the situation in which the decision to provide a subsidy is consciously taken, regardless of the reasons for that decision and regardless of the validity of the reasoning. On the other hand, subsidies may be accidental. An unintentional subsidy may arise when a firm or industry inadvertently provides a good or service at a price less than its full cost. As a result, it has provided its customers with an unintentional subsidy.

Promotional or developmental subsidies are instituted with the notion that they will promote or develop a particular industry, or provide an initial impetus to a particular geographical area that is perceived to be disadvantaged. When promotional or developmental subsidies are used, there is an implicit assumption that the subsidy is given to an infant industry and that the infant will eventually become a self-sufficient adult. When a developmental subsidy is given to an industry or to an area, it is with the assumption that the industry, or the area, will also come of age and be self-sufficient. There is no intention that the subsidy be continuous. Some promotional subsidies can be justified on the grounds that they stimulate, promote, and develop specific economic activities, and that without such subsidies, certain useful developments might be retarded, or never even take place. Promotional subsidies are often less difficult to obtain than to continue or maintain. The payment of a continuing subsidy implies the prolongment of the economic distortion. It means that a party continues to pay part of the cost while another party continues to receive the benefits.

A subsidy may be paid directly to either producers, or to users of a product. The distinction here is based on the intent of the legislator, as to whether the benefit of the subsidy should rest primarily with the consumers of the item, or whether it is the producers that are to benefit.

The benefit to the consumer may result chiefly with the fall in price at which he purchases the subsidized service or commodity, and/or with the increased amount that he purchases at the lower price. Accordingly, a consumer subsidy, intended to benefit chiefly users rather than factors of production may be largely a consumer-use subsidy or a consumer-price subsidy. Similarly, a producer subsidy, or a factor subsidy, may be intended primarily as either a factor-use subsidy or a factor-price subsidy (e.g., labour, capital, land, etc.).

A distinction can be made between export subsidies and production subsidies. Export subsidies are those directed at enhancing exports while production subsidies are those applied to the production of goods regardless of whether destined for domestic or foreign markets. Import-substitution subsidies are those which artificially promote the consumption of domestically-produced goods at the expense of foreign exporters.

d) Economic Effects of Subsidies

1. Incidence of Subsidy

The incidence of a micro-subsidy varies depending upon many factors such as the level of competition in the market for the product and whether it is a single or a multi-product market. The price benefit of a per-unit subsidy will be divided between the consumers and producers in the same ratio such that, at the initial point of equilibrium, the elasticity of the supply curve(1) for the market in question bears to the elasticity of the demand curve.(2)

For example, consider the situation in which perfect competition prevails in a one-product market under a closed economy. The incidence of a subsidy is depicted in Figure 1 which presents three different situations of varying supply and demand elasticities. Figure 1-A illustrates the incidence of a subsidy when elasticity of both supply and demand are inelastic and of equal magnitude. The market is in equilibrium at point E where the supply and demand curves intersect. The equilibrium price and output configuration is depicted by P_0 and Q_0 respectively. The introduction of a subsidy of $1.00 per unit of output results in downward shift in the supply curve from S to S' and a new market equilibrium at E'. As a result, price will be decreased from P_0 to P_1 (say about 50% of $1.00) and output will be increased from Q_0 to Q_1. Both the consumer and the producer have an equal share of the subsidy (see P_0 to P_1 and P_1 to P_2 in Figure 1-A). Figure 1-B illustrates a situation in which the supply curve is highly inelastic while the demand curve is highly elastic. A one-dollar subsidy per unit of output would result in approximately a 10 cents reduction in price (from P_0 to P_1) and a corresponding increase in output is from Q_0 to Q_1. The remainder of the subsidy benefit (i.e., 90 cents) accrues to the producer (P_1 to P_2). Figure 1-C illustrates a situation opposite to that presented in Figure 1-B. In this situation the supply curve is assumed to be highly elastic and the demand curve highly inelastic at the point of equilibrium. Contrary to the case in Figure 1-B, price in Figure 1-C decreased by 90% of the subsidy payment (i.e., 90 cents per unit of output) from P_0 to P_1 and output increased by Q_0Q_1. The producers' share of subsidy benefit, therefore, is only 10% of the subsidy payment.

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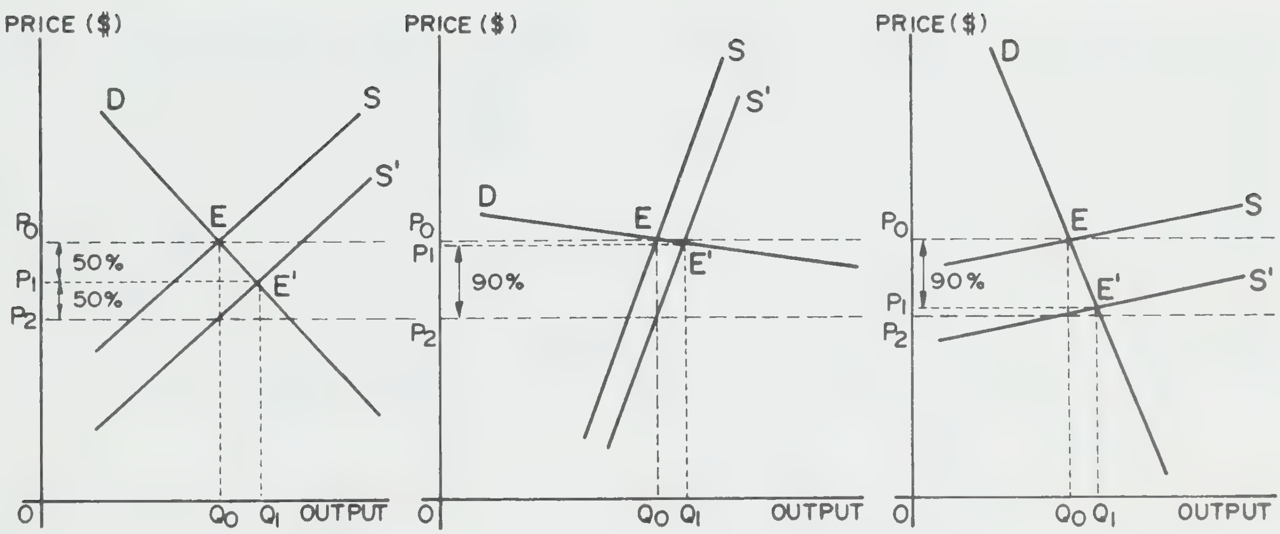
(1) The elasticity of supply is defined as the percentage change in quantity sold divided by the percentage change in price where the quantity sold is the dependent variable. If the elasticity is greater than 1, it is called elastic. If elasticity is less than 1, but greater than 0, it is called inelastic.

(2) The elasticity of demand is defined as the percentage change in quantity demanded divided by the percentage change in price where the quantity demanded is the dependent variable.



(1-A)

SITUATION IN WHICH ELASTICITY OF SUPPLY AND DEMAND ARE EQUAL.

(1-B)

SITUATION IN WHICH SUPPLY IS INELASTIC AND DEMAND IS ELASTIC.

(1-C)

SITUATION IN WHICH SUPPLY IS ELASTIC AND DEMAND IS INELASTIC.

FIG. 1

INCIDENCE OF SUBSIDY

Most of the per unit subsidy goes toward reducing the market price (assuming the subsidy is paid directly to the seller) or the price to buyers which is the market price less the subsidy (assuming the subsidy is paid directly to the buyers). In the extreme case of perfect inelastic demand, the market price will fall by the full amount of the subsidy when it is paid directly to the producers, and will not rise at all when the subsidy is paid directly to the consumers. This result will be obtained no matter the elasticity of the supply curve. Note that in the world of subsidies, it pays to be on the inelastic side of the market. Similarly, if supply is perfectly inelastic, a subsidy paid directly to the producers will not drive the market price down at all whereas a subsidy paid to consumers will force the market price up by the full amount of the subsidy.

With respect to the income redistributive effect of subsidies, consider a product subsidy rather than a factor subsidy, and that this product is purchased almost entirely by low-income families, but is produced almost entirely by factors owned by high income households. The demand for the product would be very elastic, whereas the supply would be very inelastic. A subsidy paid to the producers will lower the market price by only a small fraction of the subsidy per unit while the output associated with the subsidized commodity will expand only a little. A substantial redistribution of income may be achieved in a partial equilibrium sense, in that the relative income of this group of well-to-do families has increased relative to the incomes of this group of low-income families. Similarly, if demand were, in this instance, very inelastic and supply were very elastic, income would be redistributed, in a relative sense, to the low-income families.

Now consider a multi-product market under perfect competition in a closed economy. The fall in the market price of a product that is subsidized (the subsidy being paid to the producer) will tend to draw consumers away from products for which the subsidized item is a good substitute. The producers of those unsubsidized products will come under pressure to reduce their prices in order to stem the loss of their clientele to the subsidized market. The consequent decline in these unsubsidized prices usually means that some part of the outputs hitherto put on the market will no longer be profitable, assuming that the unsubsidized industries are operating under increasing costs. At least some resources must then flow out of the unsubsidized industries at the same time as the prices of these industries' products decline. A part of this outflow of factors may be in the direction of the subsidized industry, but not necessarily so, since the analysis is for the moment concentrated on industries whose products are closely related in consumption, not necessarily in production.

The unsubsidized goods or services whose prices and outputs fall upon introduction of a price-lowering subsidy elsewhere, are said to be rivals in consumption to the subsidized good or service. The subsidized item represents a good substitute, from the consumer's point of view if not from society's, for these particular unsubsidized products. In general, both prices and outputs of the unsubsidized products respond markedly to the fall in the price of the subsidized product. Outputs thus prove to be elastic with respect to

the decline in price of the subsidized good. The cross-elasticities[1] of those unsubsidized products, with respect to the price of the subsidized good, are therefore substantial.

In the case of an open economy, that is, one engaged in foreign trade, the incidence of even broad-based subsidies can be described without specifying the financing instrument, provided the analysis is confined to the following broad groupings: foreign consumers and foreign producers of the subsidized item; domestic consumers and domestic producers of the subsidized item; and these same categories with respect to export-competing and import-competing items. Any such description will depend on the assumptions concerning the elasticities of foreign demand and supply, and whether the subsidy also applies domestically.

Under the assumption that the subsidy is applied to domestic production for domestic use as well as to domestic production for export, the general rule is that the benefits of the subsidy are less widespread if the foreign demand is perfectly elastic. This rule can be explained in terms of a subsidy on a good that is destined both for domestic and foreign consumption. Assuming the foreign demand to be perfectly elastic, because the country furnishes a small part of the world's supply, and assuming the domestic demand to be less than perfectly elastic, as is the normal case, and that the subsidized industry is operating under increasing costs, the price to the foreign market would remain unchanged under the subsidy. Producers would thus face a rise in price (market price plus subsidy) equal to the subsidy per unit. Domestic consumers would not benefit since the price to them would not fall as long as the world market absorbs all the additional output stimulated by the subsidy without weakening domestic demand. Foreign consumers would receive no reduction in price. Consequently, the benefit of the subsidy would be concentrated on the domestic producers, that is, on the factors working in the subsidized industry, including those newly brought into the industry through the subsidy.

If, however, a country is a large a supplier of the world market such that foreign demand for its product is less than perfectly elastic, the export price would fall as a result of a subsidy paid to the domestic producers for increasing their output. Domestic consumers would also benefit from this lower price. The benefits of the subsidy, in terms of changes in price, are more widely spread when foreign demand is less than perfectly elastic. Moreover, foreign producers are disadvantaged.

2. Capitalization of Subsidy Benefits

Since the selling price of a durable property reflects its power to yield subsidy payments, the resale price of the durable goods or an income generating property is expected to be higher, ceteris paribus, by the

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(1) The cross-elasticity of demand is defined as the percentage change in the quantity of unsubsidized product demanded divided by the percentage change in the price of subsidized product.

discounted value of the subsidy payments. The beneficiary of this series of subsidy payments stretching over time is the owner at the time the subsidy was enacted, or was expected to be enacted.

If the durable good is fairly short-lived and is reproducible the resale price will not be higher by the full amount of the present value of the subsidy payment, yet to be made, than it would have been in the absence of the subsidy, since competition may be counted on to keep the price no higher than cost of production less actual depreciation.[1]

e) The Costs of a Subsidy and Evaluation Problems

The benefits obtained from a subsidy in the way of a reallocation of resources or a redistribution of income are offset in part by the resources used (i.e., manpower, materials, and any other inputs that could be used to produce something else) in the administration of the subsidy, and in the compliance with whatever tax or other financial measure used to finance the subsidy, plus the excess burden, if any, caused by that tax. This last point refers to the fact that almost any tax which yields an appreciable amount of revenue will induce persons and firms to consume and produce in tax-minimizing patterns. The loss in satisfaction or efficiency that results from the tax-minimizing patterns is referred to as an excess burden. It is also excessive in another sense in that it accomplishes nothing since the government will find that the revenue generated is not sufficient. In anticipation of this situation, the government will not only be constrained by these tax-avoidance methods but must increase the rate of tax enough to make up the difference.

The budgetary cost of the subsidy, (i.e., the amount paid out to the subsidy recipient), is offset by the subsidy flow to the recipient. The beneficiary gains what the taxpayer loses. In this simplified case, there is no real net cost to the economy as a whole.

The real cost of a subsidy will be the economic distortion which arises as a result of the subsidy. A subsidy will change the relative prices between competing goods and services such that consumers may consume more of the subsidized goods at the expense of alternative non-subsidized goods.

The decision on whether to provide a subsidy, and if so, at what rate should be based on a comparison of the present value of future costs in those periods with the present value of net benefits. This procedure is usually referred to as cost-benefit analysis. Moreover, assuming a specific economic goal is attainable by means of subsidies, what is required is a series of cost-benefit analyses, both for the proposed subsidy and for all alternative policy instruments capable of achieving the same goal. This computation requires quantifiable information as to the benefits, costs, and an appropriate discount rate. The problems encountered in an evaluation in the context of cost-benefit analysis are well documentated in economic literature.

(1) Shoup, Carl S., Op. cit. pp. 71-72.

f) Subsidy Practices For the Textile Industry by Industrialized Countries

It is generally accepted that developing countries appear to be most competitive with industrialized countries in products characterized by low skill intensity, relatively high labour intensity, high resource intensity, and small scale enterprises. A typical example, for industrialized nations, is the textile industry which has exhibited rather stagnant or even declining economic activity domestically. Moreover, the textile sector situation was exacerbated by the multilateral tariff reductions, following the Kennedy Round trade negotiations of the late 1960's and early 1970's which advocated a much freer system of international trade. The social and economic problems created by a contraction of the textile industry were often compounded in developed countries by a regional concentration of textile output in areas where few alternative employment opportunities existed.

Under these circumstances, the importance of non-tariff forms of government intervention have become more apparent. In fact, tariff reductions may even have accelerated the growth of non-tariff restrictions of trade in that the interest groups previously protected by tariffs have appealed to governments for other forms of support. Two types of government support are direct expenditures or subsidies and allowances for tax obligations. In general, however, the role of tax incentives has been limited, since tax allowances are an effective incentive only in those situations in which positive profits are being earned and in which substantial taxes might otherwise have been paid.(1)

Grants may also serve a purpose in the rationalization programs of some countries, but they are not generally considered a major determinant of international competitiveness. Rather, voluntary export restraints negotiated under the Multifiber Arrangement (MFA) appear to be a more important determinant in ascertaining the amount of adjustment necessary for each country.

The MFA essentially represents a compromise arrangement; it is intended to prevent sudden surges in imports that cause major domestic market disruptions, but at the same time, it is designed to allow imports to grow in an orderly manner. Precise control over MFA imports does not exist however, because most bilateral agreements allow a certain portion of the quota to be carried forward or backward from one year to another. Therefore, other form of government intervention such as a subsidy in addition to tariffs and the MFA have been introduced to assist the textile industry.

In conclusion, a review of subsidy practices for the textile industry by other industrialized countries reveals that no subsidies are given for the purpose of an expansion in productive capacity. Subsidies are focused mainly on adjustment for labour or industry restructuring/re-equiping without expansion of overall capacity. As a signatory of the GATT, a subsidy program could be found counter to Canada's GATT committments.

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(1) Mutti, John., Taxes, Subsidies and Competitiveness Internationally, Committee on Changing International Realities, Washington, D.C. 1982.

g) Analysis of a Subsidy for Canadian Wool Fabric Producers

From the above theoretical study it is possible to create a general framework in which to analyse the probable benefit of a subsidy to Canadian woollen and worsted fabric producers. Figure 1-C above most closely represents the wool fabric producers' current situation. The evidence provided by the garment manufacturers states that they face considerable price rigidities for their products and that many of their members have gone out of business in recent years. In fact, the total Canadian garment market has been shrinking and import competition has been growing. Such a highly inelastic demand for wool garments translates into a highly inelastic demand in Canada for fabrics. On the supply side conditions are quite different. The domestic fabric manufacturers have stated that they are operating at considerably less than full capacity which means that output could be expanded fairly quickly. This suggests a fairly elastic supply function, at least in the short-run. In practical terms this elasticity is increased when the international dimension is taken into account because total Canadian wool fabric demand is very small when compared to total world supply. In these circumstances the following diagram 1-D shows the benefit of a subsidy to wool fabric producers.

The almost vertical demand curve (D) reflects the highly inelastic state of the market for fabrics. The relatively flat supply curve (S) reflects the ease with which the supply of wool fabrics can be increased. The payment of a subsidy in an amount P_0P_2 shifts the supply curve down to the right (S'). The price of fabric to the garment manufacturers is reduced from OP_0 to OP_1 and the quantity sold is increased from OQ_0 to OQ_1. Both consumers and producers benefit.

The consumer benefit is shown by the area $P_0P_1E'E$. The consumers in this case, of course, are the garment manufacturers. Any final benefit to the retail consumer would depend on how much of this benefit was passed on by the garment manufacturers in the form of lower garment prices. The benefit to the fabric producers is shown by the area P_1P_2aE'. The subsidy benefit to the society as a whole is shown by the area $aQ_0Q_1E'+aE'E$ which is the area below the demand curve from point E to E' segment. The budgetary cost of the subsidy payment, on the other hand, is shown by the area P_0P_2aE. It should be noted that the budgetary cost does not include costs associated with either program administration on the government side or with compliance for industry.

To evaluate whether or not q subsidy is an efficient policy instrument in assisting fabric producers, a cost-benefit comparison can be utilized as an evaluation criterion. If the estimated benefit (i.e., area $aQ_0Q_1E'+aE'E$) is greater than the cost of the program (i.e., area P_0P_2aE), the proposed subsidy is considered to meet the efficiency condition. However, under an inelastic demand curve, it is generally accepted that the cost of the subsidy is necessarily greater than the benefit. On the question of benefit distribution between the fabric and garment manufacturers,

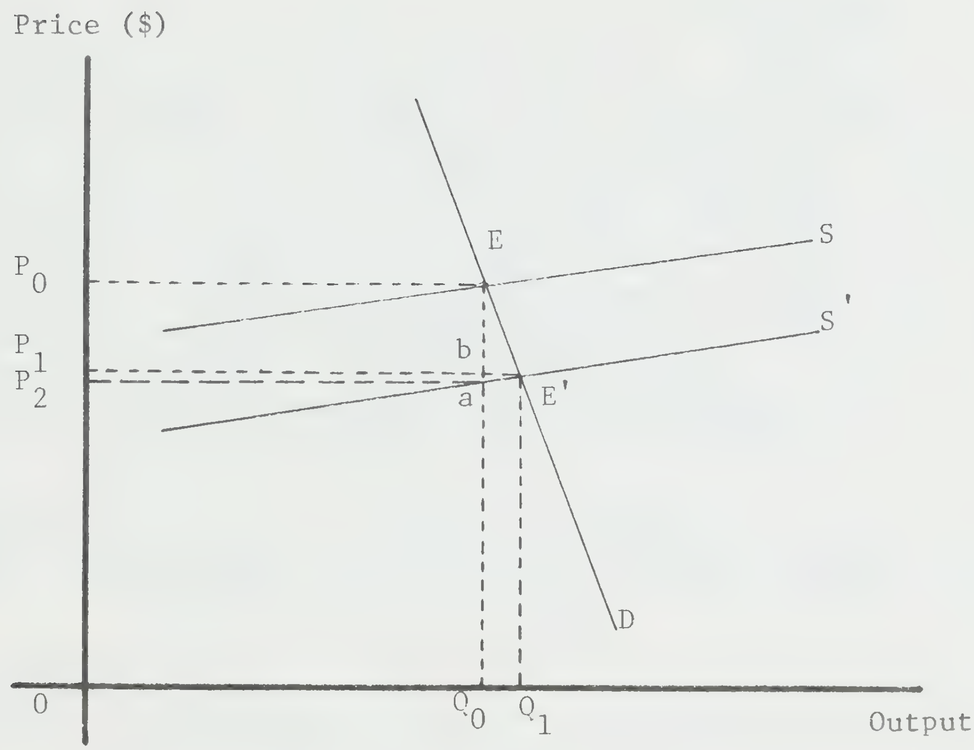

FIG. 1--D

COST-BENEFIT COMPARISON
IN A SITUATION WHERE SUPPLY IS
ELASTIC AND DEMAND IS INELASTIC

Figure 1-D clearly shows that the subsidy is of much greater benefit to the garment manufacturers than it is to the fabric producers. This distribution of the benefit of a subsidy is simply a fact and can only be evaluated by the introduction of other parameters.

The focus of this reference is the woollen and worsted fabric industry. Therefore, the Board will be seeking a solution which provides the greatest benefit to the fabric producers at the least cost to other interested parties such as consumers, garment manufacturers and the government. While the result of a subsidy payment in this case is in no sense "bad", it does suggest that a subsidy program designed to assist fabric manufacturers may not provide the greatest benefit for the least cost.

h) Calculation of the Subsidy

The Minister raised the possibility of a subsidy program as an alternative to tariff protection. To calculate the amount of the subsidy assume that there will be duty free entry for all woollen and worsted fabrics. The base level of a subsidy can be calculated by dividing total duties collected on woollen and worsted fabric imports in 1983 ($16.2 million) by the square yards of woollen and worsted fabric produced in Canada in 1983 (18.7 million square yards). Thus, the dollar value of the tariff protection could be paid directly to the fabric producer by a subsidy of at least 87 cents per square yard. It would, of course, be possible to calculate the subsidy by type of fabric but administrative considerations by both producers and the government might render this option unacceptable.

As noted, an 87¢ subsidy is a minimum to compensate for the loss of the tariff. The payment of a greater amount could only be calculated based on the cost of any variety of industry and government policy goals. Until such goals are established the total subsidy cannot be determined.

As a general conclusion at this time it can be said that current supply and demand conditions for woollen and worsted fabrics offer an undesirable scenario for the introduction of a subsidy program.

i) Tariff as an Alternative to Subsidization

In order to assess the incidence of a tariff as an alternative method of protection, assume that domestic producers in the importing country produce similar products to those of the exporting country, and that the domestic demand curve (D) is highly inelastic while the domestic supply curve (S) is highly elastic as shown in Figure 2-C.

From these domestic supply and demand curves, an import demand curve is derived which is depicted in Figure 2-B. Similarly, the export supply curve of country A as shown in Figure 2-B is derived from the exporting country's supply and demand curves (see Figure 2-A). Figure 2-B has a relatively inelastic export supply curve and a relatively elastic import demand curve. The equilibrium price (P_E) in the world market is determined at the point E where the export supply and import demand curves intersect.

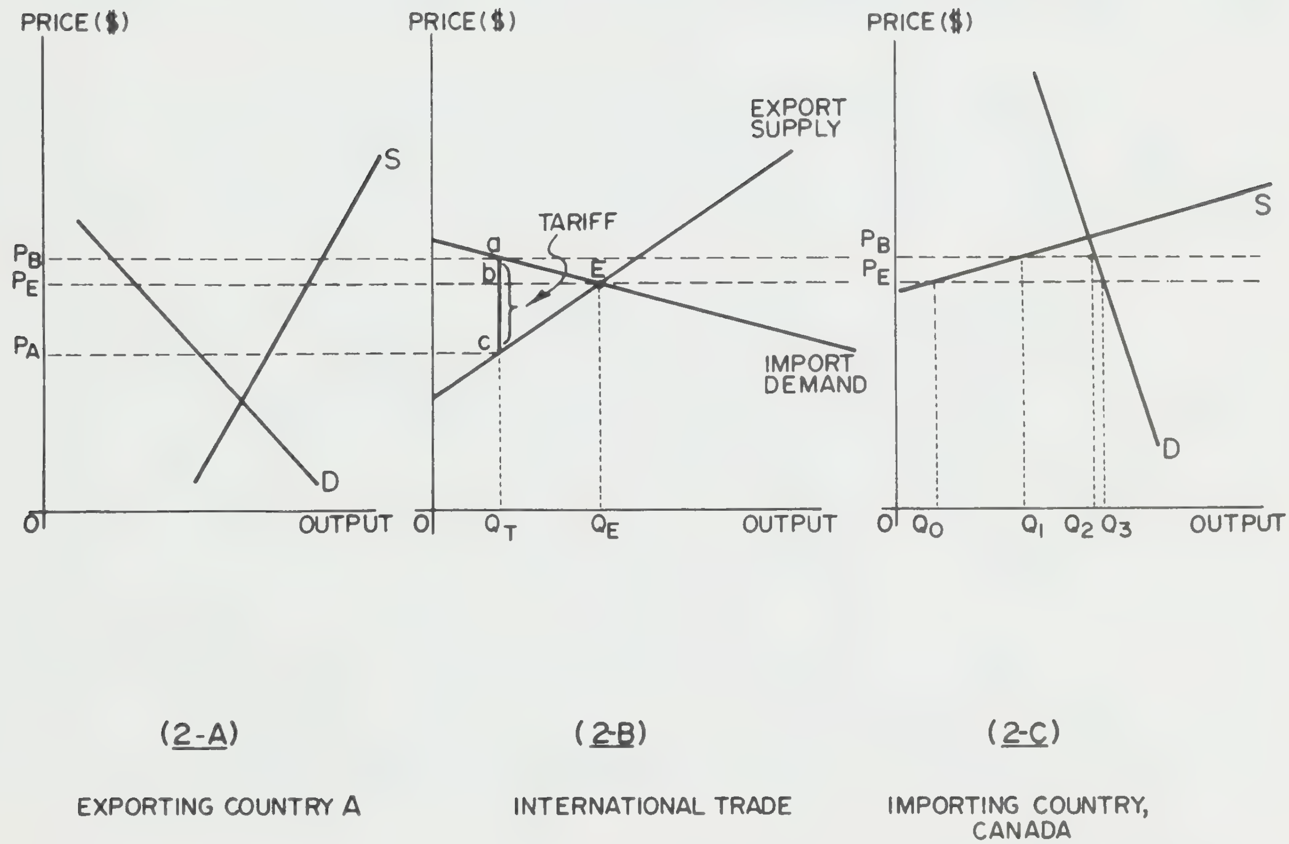

FIG. 2

INCIDENCE OF TARIFF

Now, assume that the importing country, Canada, imposes a tariff equivalent to a $1.00 per unit on imported goods (i.e., distance ac in Figure 2-B). The incidence of the tariff according to Figure 2-B illustrates that the importing country absorbs approximately 25 per cent of the duty (i.e., distance ab) while the exporting country absorbs the remaining 75 per cent of the tariff (i.e., distance bc).

The effects of tariff protection in this simplistic world are as follows: (1) the price received by the export country (P_A) is reduced 75 cents from the world equilibrium price (P_E) and the price paid by the importing country (P_B) increases 25 cents from the equilibrium price (P_E); (2) world trade volume decreased from OQ_E to OQ_T; (3) domestic production in Canada increased from OQ_0 to OQ_1, while domestic consumption decreased from OQ_3 to OQ_2; (4) imports into Canada decline from Q_0Q_3 to Q_1Q_2; and (5) government revenue is generated by the area Q_1Q_2 multiplied by the distance ac.

Therefore, the economic effects of tariff on the importing country is such that domestic production (Q_0Q_1) has increased by a much larger volume than the reduction in domestic consumption (Q_2Q_3) under the situation where the domestic demand curve is inelastic and the domestic supply curve is elastic.

In general, the incidence of subsidy and tariff is the same except that the direction of the price changes are opposite. In other words, the subsidy will shift down the domestic supply curve and consequently shift downward the import demand curve. Whereas, the effect of the tariff will shift the export supply curve upward. As a result, the domestic supply curve is ultimately shifted upward. Consequently, a tariff decreases aggregate sales, and decrease imports by more than the corresponding increase in domestic production. A subsidy, on the other hand, lowers the domestic price to consumer which results in a reduction in imports, though the decrease in imports will be less than the increase in home production.[1] Insofar as part of the burden of a tariff is transferred to the foreign producer, the cost to the importing country of tariff protection will be less than the cost of protection by subsidization. It should be noted, however, that the cost to the exporting country is always less than the total impact of the tariff as long as the export supply curve is less than perfectly elastic.

j) Industry Opinion

The views of both the fabric and garment manufacturers regarding the introduction of a subsidy program are on the public record. The CTI, on behalf of the fabric manufacturers, stated that the industry did not want a subsidy program as an alternative to adequate tariff protection. The garment

(1) Threlfell, R.L. "The Relative Merits of Tariffs and Subsidies as Methods of Protection", The South African Journal of Economics, June 1946, pp. 117-131.

manufacturers were unanimous in stating that they did not wish to be the direct beneficiaries of a subsidy program although some said that they would not object to subsidy payments to fabric producers. The inherent logic of this latter position is borne out by the above analysis.

In light of the analysis of the impact of a subsidy program and having regard for the views of both fabric and garment manufacturers, it is concluded that the payment of subsidies as an alternative to tariff protection is not the best option not only for fabric producers but also for all parties concerned.